



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2021/22

INTERIM RATE APPLICATION

Before Board Panel:

Robert Gabor	- Board Chairperson
Marilyn Kapitany	- Board Vice Chair
Larry Ring, QC	- Board Member
Irene Hamilton	- Board Member
Hugh Grant	- Board Member
Shawn McCutcheon	- Board Member
(by Teams)	

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
December 13th, 2021
Pages 396 to 647

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1 --- Upon commencing at 9:00 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. We are resuming the Manitoba Hydro Interim
5 Rate Application, and we will proceed at this time
6 with cross-examination by Assembly of Manitoba Chiefs
7 which will go until 9:45.

8 I'm going to change the schedule
9 slightly. We will have the morning break at 9:45 to
10 10:00, and then we will proceed with Consumers'
11 Coalition and they will have an extra fifteen (15)
12 minutes to -- to complete their cross-examination.

13 So if we have -- I don't know who is
14 going to be conducting the cross-examination for
15 Manito -- Assembly of Manitoba Chiefs.

16 MS. EMILY GUGLIELMIN (by Teams): That
17 will be me, Emily.

18 THE CHAIRPERSON: Okay. Thank you,
19 Emily. And we have Manitoba Hydro available. So,
20 Emily, if -- if you'd like to proceed, please.

21

22 CONTINUED MANITOBA HYDRO PANEL NO. 2:

23 AUREL TESS, Previously Affirmed

24 ALASTAIR FOGG, Previously Sworn

25 KEVIN GAWNE, Previously Sworn

1 SHANNON GREGORASHUK, Previously Sworn

2

3 CROSS-EXAMINATION BY ASSEMBLY OF MANITOBA CHIEFS:

4 MS. EMILY GUGLIELMIN (by Teams):

5 Great. Hello and good morning. My name is Emily
6 Guglielmin, and I, along with my colleague Carly Fox,
7 represent the Assembly of Manitoba Chiefs for this
8 hearing.

9 I would like to start by acknowledging
10 my presence on Treaty 7 lands and acknowledging the
11 Public Utility (sic) Board's presence on Treaty 1
12 lands on the territories of the Anishinaabe, the Oji-
13 Cree, the Cree, the Dene, and the Dakota peoples.

14 I also acknowledge all of the treaties
15 that cover, and First Peoples that reside on the lands
16 and waters of what is now called Manitoba.

17 And so I see Ms. Schubert has already
18 put up our book of documents that we sent this
19 morning. Can we enter that as AMC Exhibit 3.

20

21 --- EXHIBIT NO. AMC-3: AMC Book of Documents

22

23 CONTINUED BY MS. GUGLIELMIN:

24 MS. EMILY GUGLIELMIN (by Teams): So
25 my questions are addressed to anyone in the panel who

1 can best answer them, and I think I'm just going to
2 jump right in. If we could turn to page 3 of the AMC
3 book of documents, and there's a highlighted part
4 there.

5 So there, Manitoba Hydro states that
6 foregoing the proposed rate increase to the diesel
7 residential class would cost Manitoba Hydro
8 approximately forty-two thousand (\$42,000).

9 And I'd like to confirm that reference
10 to forty-two thousand (\$42,000), that reflects the
11 additional revenue that Manitoba Hydro will receive if
12 the Public Utility (sic) Board approves their
13 requested rate increase for the diesel residential
14 class.

15 MS. SHANNON GREGORASHUK (by Teams):
16 Good morning. I can confirm that.

17 MS. EMILY GUGLIELMIN (by Teams):
18 Okay. And given the lack of a cost of service study,
19 how can you be confident that the increased rate is
20 just and reasonable?

21 MS. SHANNON GREGORASHUK (by Teams):
22 So as part of our Application, we did provide a
23 prospective cost of service study based on our most
24 recent approved -- I guess it was the 2021 approved
25 budget.

1 So, pardon me, it wasn't the most
2 recent, but it was based on that 2021 approved budget,
3 and it shows directionally where all of the individual
4 customer classes fit within the zone of
5 reasonableness.

6 And so that is the basis of which --
7 essentially, just and reasonable rates are -- are
8 reflective of if they're recovering or seem to be
9 recovering -- reasonably recovering the costs. And
10 that is the starting point, and of course this Board
11 also has discretion to consider other policy
12 considerations when approving just and reasonable
13 rates.

14 And so for the diesel residential
15 customer class, we have had a long-standing policy in
16 the province that they were to be maintained at
17 similar -- or at the same rate as other residential
18 customers in the province.

19 And so what we see in the PCOS study
20 that we filed is the residential customers are well
21 within the zone of reasonableness. And so we -- that
22 was our starting point in applying the rate increase.

23 MS. EMILY GUGLIELMIN (by Teams): And
24 I'm just going to move on to a question about inter-
25 generational equity. Just to confirm, inter-

1 generational equity issues are one of the underlying
2 reasons for making this application?

3 MR. AUREL TESS (by Teams): That was
4 one (1) of the -- it's Aurel Tess speaking. Yes, that
5 was one of the considerations that we certainly
6 considered when making this Application.

7 MS. EMILY GUGLIELMIN (by Teams): And
8 that was the issue related to recovering annual
9 interest costs on borrowing to avoid an unfair burden
10 being shifted to future customers, right?

11 MR. AUREL TESS (by Teams): That's
12 correct.

13 MS. EMILY GUGLIELMIN (by Teams): And
14 can we turn now to page 4 of the AMC book? There.
15 Okay.

16 And so, to summarize, this is basically
17 saying that if the 5 percent rate increase is awarded,
18 there's still an estimated \$366 million decrease in
19 that income, and the need to borrow \$348 million to
20 fund Manitoba Hydro's operations, correct?

21 MR. AUREL TESS (by Teams): Yeah.
22 It's -- just to characterize it in terms of the
23 budget, it's a \$366 million swing from what we had
24 budgeted. So we had budgeted 170 million -- 177
25 million, I believe, in the '21/'22 budget.

1 MS. EMILY GUGLIELMIN (by Teams): So
2 basically, even if a 5 percent rate increase is
3 awarded, there would still be a significant amount of
4 borrowing that could result in inter-generational
5 equity issues?

6 MR. AUREL TESS (by Teams): There --
7 there is a significant amount of what I would call
8 principal related to the \$348 million that we would
9 still have to borrow in this year.

10 But the rationale we used was that the
11 -- the \$13 million approximately of interest we would
12 incur is something that we would at least like to
13 recover, plus a little bit to recover the remaining
14 balance of the 348 million that needs to be recovered
15 over future generations.

16 MS. EMILY GUGLIELMIN (by Teams): And
17 I'd like to turn now to page 5 of the AMC book. And
18 so here, I've highlighted that number three ninety-
19 eight (398).

20 And so is this basically saying that
21 Manitoba Hydro calculates the cost of the drought as
22 the net loss in export revenue which is expressed as
23 the dollar difference between the 2021/'22 forecast
24 and the 2021/'22 budget, and this is what amounts to a
25 \$398 million deficit?

1 Is that about accurate?

2 MR. AUREL TESS (by Teams): The -- the
3 \$398 million is -- is the loss of net export revenue
4 compared to budget. So net export revenue is made up
5 of export revenue minus imports. So energy -- the
6 cost of energy we would have to import less water
7 rentals. So that is our net amount, and it's
8 different from the budget which was 509 million.

9 The revenue requirement is really --
10 this is one (1) of the main drivers of the loss.
11 There are some other factors, but this is the big one.

12 MS. EMILY GUGLIELMIN (by Teams): And
13 then if we can scroll down to the next page, and so I
14 just want to get into this a little bit further. And
15 so here, in Answer B, Manitoba Hydro has said that
16 approximately 90 percent of the export revenue
17 reduction is due to lower export volumes.

18 And so I don't know if I need to say
19 "subject to check", but, subject to check,
20 approximately 90 percent of 168 million is about \$151
21 million.

22 Is that correct?

23 MR. AUREL TESS (by Teams): That's
24 correct.

25 MS. EMILY GUGLIELMIN (by Teams): And

1 then 50 percent, or approximately 50 percent, of the
2 increased opportunity import purchases are due to
3 higher import volumes. And so 50 percent of the
4 approximately \$262 million is approximately \$131
5 million.

6 Is that correct?

7 MR. AUREL TESS (by Teams): That's
8 correct.

9 MS. EMILY GUGLIELMIN (by Teams): And
10 then, of course, 100 percent of the reduction in water
11 rentals and assessments is due to lower hydraulic
12 generation, which is \$32 million lower than budget.

13 Is that correct?

14 MR. AUREL TESS (by Teams): That's
15 correct.

16 MS. EMILY GUGLIELMIN (by Teams): And
17 so if we add that all together, do you agree that
18 approximately \$250 million of the budget deficit is
19 due to lower hydraulic generation?

20

21 (BRIEF PAUSE)

22

23 MR. AUREL TESS (by Teams): Just one
24 (1) second here.

25

1 (BRIEF PAUSE)

2

3 MR. AUREL TESS (by Teams): Yeah. The
4 -- sorry for that. Just consulting. So the -- the
5 import is -- the reason we're importing is because of,
6 you know, the reduction in -- in generation. And the
7 -- the water rentals are also affected by that.

8 That's a -- but that's an offset. That's a cost for
9 Manitoba Hydro, so that -- that's a reduced cost.

10 So, I can confirm that, yes, the 250
11 million figure I believe you quoted was correct.

12 MS. EMILY GUGLIELMIN (by Teams): And
13 so then, out of this approximately \$398 million in
14 lower net export revenues, that means approximately
15 \$148 million that's associated with pricing risk in
16 markets outside of Manitoba?

17 MR. ALASTAIR FOGG (by Teams): Good
18 morning. It's Mr. Alastair Fogg.

19 Maybe what I could say is I think the
20 148 million that you would refer to would be a
21 difference in what we believe prices for those imports
22 would be today versus what would have been forecasted
23 as an average at the time when the budget was
24 prepared.

25 MS. EMILY GUGLIELMIN (by Teams): And

1 so -- so, essentially, that's not directly related to
2 the drought?

3 MR. ALASTAIR FOGG (by Teams): It
4 would not be directly related to the drought
5 necessarily; that's correct.

6 MS. EMILY GUGLIELMIN (by Teams): And
7 I think you had said on Friday that because the
8 physical energy imports are purchased on a day ahead
9 or realtime basis, this \$148 million, that -- part of
10 that is forecast.

11 You don't necessarily know if that's
12 going to be the number at the end of the fiscal year?

13 MR. ALASTAIR FOGG (by Teams): It
14 would be a forecast; that's correct. It would be
15 something that we would be considering as time goes
16 by, as those market prices are realized.

17 MS. EMILY GUGLIELMIN (by Teams):
18 Okay. Thank you. Can we go now to page 7 of the AMC
19 book?

20 And just to summarize, so one (1) of
21 the questions in this Information Request is how is
22 Manitoba Hydro protected when financial hedges are not
23 backed up by physical import purchases.

24 And then, if we scroll down to the
25 second page, ultimately, the answer is that Manitoba

1 Hydro can sell positions back to the market.

2 Is that an accurate summary?

3 MR. ALASTAIR FOGG (by Teams): I think
4 that that would be part of the summary. What --
5 what's probably important to note is that the hedging
6 that we've entered into has been based on water
7 conditions and how they're progressed over time.

8 So, we've taken a balanced approach to
9 look at when those hedges should be placed and what
10 uncertainty may or may not exist around water
11 conditions and the associated imports.

12 So, as we gained further certainty
13 around our water situation, we would have looked at
14 placing those hedges to more closely match what we
15 anticipate those required imports would be.

16 They -- these hedges can be -- I think
17 the term to use would be 'unwound' if required should
18 they not be needed at the time. And our main focus
19 has been really an objective of protecting against
20 downside price risk and any material impacts or swings
21 to net income that may happen from energy market
22 prices.

23 MS. EMILY GUGLIELMIN (by Teams): And
24 so, I -- I wanted to ask some general questions just
25 about the cost of entering into these contracts for

1 Manitoba Hydro.

2 I don't intend to ask any questions
3 that would cause you to divulge confidential or
4 sensitive market information. I just want to get,
5 like, a general sense of what those costs could be.

6 So, for example, if Manitoba Hydro
7 entered into a hedge to buy energy in the spot market
8 for forty dollars (\$40) per megawatt hour, and then
9 the price turned out to be thirty dollars (\$30), it's
10 my understanding that Manitoba wouldn't exercise the
11 hedge. And then the cost to the ratepayers would be
12 the cost of the hedge.

13 Is that correct?

14

15 (BRIEF PAUSE)

16

17 MR. ALASTAIR FOGG (by Teams): So,
18 I'll try and -- try and do my best to answer that on a
19 general basis without specifics. I -- I think what we
20 would say is, as we were entering hedges, we would
21 have done so based on forward market prices.

22 As I mentioned, when the actual
23 physical power is required, it will be purchased on a
24 realtime or day-ahead basis. Should we find that the
25 financial hedges that we've entered into are in a

1 position that they need to be unwound, they would be
2 unwound by selling it back into the market or taking a
3 counter position to those hedges.

4 It's difficult to say exactly what
5 those opportunity costs, or costs, would be at this
6 point in time, recognizing the uncertainty in those
7 prices, but that's the general process that would be
8 followed.

9 MS. EMILY GUGLIELMIN (by Teams):

10 Okay. But if the price was lower than what the hedge
11 was bought for, would you be able to sell it back to
12 the market because it wouldn't be -- wouldn't it be a
13 money losing hedge?

14 MR. ALASTAIR FOGG (by Teams): So,
15 it's a difficult question to answer on that basis
16 because it -- it assumes, in some ways, that you have
17 one (1) single price of a hedge or one (1) single
18 position.

19 As I mentioned, we've entered into
20 these over time, so there's really a blend or an
21 overlapping of different hedge prices that could
22 occur.

23 So, on a direct basis to your
24 comparison, I -- I don't believe that would be the
25 exact opportunity cost we could experience because we

1 won't have one (1) single position or one (1) single
2 price.

3 You would take an -- an opposing
4 position in the market to -- to unwind that. However,
5 again, that unwinding may occur in advance of when --
6 when you actually need to sell it, so -- so others may
7 take different positions that's based on forward
8 pricing curves, as well.

9 So, again, it's based on forward
10 prices, not on -- on the actual day. So, it -- it
11 would really be difficult to do that direct
12 comparison.

13 MS. EMILY GUGLIELMIN (by Teams): And
14 it's my understanding, and I'm not sure if you -- I'm
15 sure you would know this probably, but the gas and
16 power prices have declined from October and November?

17 MR. ALASTAIR FOGG (by Teams): We --
18 we do -- we have seen a decline in that period of
19 time. We've also noted on a day-by-day basis very
20 substantial volatility in those prices, so there has
21 been a general decline.

22 Much of this can be based on weather,
23 so there remains quite a bit of uncertainty as we
24 progress, particularly in to December and January,
25 around those prices.

1 And recognizing the volatility we've
2 seen today, we would expect that to continue, to see
3 more price changes.

4 MS. EMILY GUGLIELMIN (by Teams): And
5 do you know if -- since this Application was filed,
6 has that changed any of the budgeting numbers?

7 MR. ALASTAIR FOGG (by Teams): I guess
8 to say simply, if you looked at it on a day-by-day
9 basis, it would constantly change because those prices
10 would be changing.

11 So, the simple answer would be it --
12 it's always changing. On a -- an exact number? No, I
13 don't know exactly what that may or may not be.

14 MS. EMILY GUGLIELMIN (by Teams): And
15 in its Application, Manitoba Hydro noted that it'll
16 continue to enter into hedging contracts.

17 Are you able to tell us if Manitoba
18 Hydro's hedging portfolio has increased since the rate
19 Application was filed?

20 MR. ALASTAIR FOGG (by Teams): I think
21 I would be going into commercially-sensitive
22 information to explain how our portfolio of hedges may
23 have changed.

24 What I could say is that, as per the
25 Application, we noted we would look at potential

1 positions as -- as time continued. We monitor that on
2 a daily basis and look at market prices to consider
3 how prices are changing.

4 As you noted, we have seen some prices
5 decline at this time. We would take that into
6 evaluation of what we want to do from a hedging
7 perspective, and we -- we regularly monitor that.

8 MS. EMILY GUGLIELMIN (by Teams):

9 Thank you. Can I turn to page 10 of our book of
10 documents now?

11 So, this is telling us that Manitoba
12 Hydro is not requesting approval of an increase for
13 2022/'23 as part of its Application and, as a
14 simplifying assumption, has not assumed a rate
15 increase in the 2022/'23 preliminary plan filed with
16 this Application.

17 Can you confirm that summary?

18 MR. AUREL TESS (by Teams): Yes, I can
19 confirm that.

20 MS. EMILY GUGLIELMIN (by Teams): And
21 I believe that Mr. Tess said on Friday that the plan
22 includes a zero percent increase because Manitoba
23 Hydro has a substantial amount of work ahead to put
24 together a General Rate Application.

25 Is that correct?

1 MR. AUREL TESS (by Teams): Yeah,
2 that's correct. It's -- it's primarily about the
3 timing of a rate application, that we would be looking
4 at potentially in the fall, completing a multi year
5 rate application, a combined rate application for gas
6 and electric.

7 And given the -- the timing of that, we
8 couldn't forecast a January rate increase. It wasn't
9 because of the lack of need or financial need,
10 certainly not because of that, it's more about the
11 process and the timing it requires to get that rate
12 application approved.

13 MR. ALASTAIR FOGG (by Teams): Maybe
14 if I could just add. It's Alastair Fogg.

15 The -- the other aspect related to
16 '22/'23 is that there is still quite a bit of
17 uncertainty around water conditions.

18 As we noted previously, the 2022/'23
19 preliminary plan's based on an average of forty (40)
20 flow conditions and -- however, we need to see how
21 winter snow and early spring precipitation progresses.

22 So there's quite a bit of uncertainty
23 around what that export revenue may be in '22/'23 and
24 that's a major consideration as well, as we look at
25 both that budget and our -- our submission for a rate

1 application.

2 MS. EMILY GUGLIELMIN (by Teams): So
3 understanding that there's a bit of -- there's quite a
4 bit of uncertainty, is there any assumptions that you
5 could make to assume that there will be a rate
6 increase next year in order to lower the rate increase
7 that's being asked for this year?

8 MR. AUREL TESS (by Teams): No, I
9 don't think that's something that we can do. Again,
10 we -- we've thought through our -- our timing of this
11 and -- yeah, it's the -- it's the effective date of
12 April 1 next -- you know, the following fiscal year
13 that we could be looking at a rate increase.

14 But, actually, we -- we have committed
15 to working with the PUB on the multi-year rate
16 application, if there is a way to get the rate
17 increase done on January, then we'll certainly seek it
18 -- seek that out and -- and work towards that end.

19 MS. EMILY GUGLIELMIN (by Teams): I
20 guess, what I'm asking is that since Manitoba Hydro
21 has indicated, since at least 2009, that it would need
22 a 3.5 percent annual rate increase, even if you
23 assumed a late application, you couldn't budget for
24 that level of increase or even a slightly smaller one
25 just to see how that could offset a January 1

1 increase.

2 MR. ALASTAIR FOGG (by Teams): I think
3 what you could say is there has been previous
4 recognition of that -- that rate trajectory and the --
5 the requirement for those rate increases.

6 What -- what we need to consider here
7 is that part of it is that there's significant
8 uncertainty around water conditions, both in this
9 Application and what could be required subsequent to
10 that. And it would be difficult to say what that
11 future rate increase could be for those water
12 conditions versus today.

13 MS. EMILY GUGLIELMIN (by Teams): So
14 I'm going to move on from that and go to page 11 of
15 the book of documents.

16 And in this Information Request -- it's
17 Exhibit AMC 2-5 -- AMC asks some questions about major
18 capital projects and deferral accounts.

19 Is there any requirement to clear the
20 deferral account over two (2) years as opposed to one
21 (1), other than that the money was collected over a
22 two (2) year time period?

23 MR. AUREL TESS (by Teams): It was the
24 rationale we used for twenty-four (24) months that --
25 again, going back to -- to this deferral account

1 though, it is a non-cash transaction. So it does not
2 help our -- it does help the revenue requirement, but
3 it does not help the cash situation that Manitoba
4 Hydro faces.

5 The 348 million with the rate increase,
6 that's projected to cause that deficiency to fund core
7 operations. So if you go to PUB-MFR-6, figure 6(d),
8 that kind of nicely lays out the cash that's required
9 to fund the operations.

10 So the amortization period, while
11 making a difference in terms of the bottom line net
12 income through the net movement, does not help our
13 cash situation.

14 MS. EMILY GUGLIELMIN (by Teams): So I
15 think you're going where I was asking.

16 So reducing the amortization period, in
17 your opinion, that would not reduce the level of the
18 rate increase being requested?

19 MR. AUREL TESS (by Teams): No. Going
20 back to -- I think one (1) of your first questions was
21 -- was about the rationale and looking at the -- the
22 cost of borrowing on the 348 million. And looking at
23 that as a rationale for the -- for the rate increase
24 as well.

25 MS. EMILY GUGLIELMIN (by Teams): And

1 although there would be no new bill impacts as a
2 result of disposing of the deferral account balance,
3 it is the intention that once this account is starting
4 to be amortized, the 2.5 percent rate increase that
5 was approved effective June 1st, 2019, that would now
6 flow to Manitoba Hydro's general revenues once
7 approved. Is that correct?

8 MR. AUREL TESS (by Teams): That's
9 correct.

10 MS. EMILY GUGLIELMIN (by Teams): And
11 so, adding a 5 percent increase to Manitoba Hydro's
12 general revenue on January 1, 2022, in addition to
13 recognizing that 2.5 percent as part of its revenues,
14 is that effectively a 7.5 percent increase to Manitoba
15 Hydro's general revenue from its customer base?

16 MR. AUREL TESS (by Teams): No, it is
17 not. Keep in mind that that money has been collected
18 and used to offset borrowings. So I believe that's
19 something that's in the record already that we have
20 testified to. So in terms of the customer impact,
21 that is not the case.

22 MS. EMILY GUGLIELMIN (by Teams): But,
23 like, leaving aside the customer impact, it's now
24 being accounted for differently. So it would be 7.5
25 percent going to general revenue altogether that

1 didn't go there before.

2 MR. AUREL TESS (by Teams): Yeah. I -
3 - it still is accounted for in a revenue. But if you
4 notice, on our financial statements, which -- in PUB-
5 MFR-3, it does get removed as part of net movement.

6 The other thing to note and I don't
7 know if we can go there -- if there's time -- but this
8 Exhibit PUB-MFR-3 -- Ms. Schubert, would there be time
9 to -- to bring that -- that exhibit up?

10

11 (BRIEF PAUSE)

12

13 MR. AUREL TESS (by Teams): Thank you.
14 So this is a really important line item, this net
15 income before net movement.

16 And if you look at this line, it's all
17 negative. This is prior to the deferral accounts
18 being applied and the net movement account that is
19 right below it.

20 So if you look at these -- for example,
21 in '21/'22, our forecasted net income prior to the net
22 movement was a loss of 417 million.

23 In '22/'23, even with the rate
24 increase, it's a loss of \$19 million. And that's with
25 \$88 million coming in in that fiscal year.

1 So the amortization, while it is of the
2 -- the amortization period of the deferrals is an
3 important thing to consider, when you look at the --
4 the loses that we were experiencing prior to the net
5 movement, that's what really strikes home to me when I
6 look at the financial health of Manitoba Hydro.

7 MS. EMILY GUGLIELMIN (by Teams): So I
8 think, if I could summarize, you're saying that even
9 though Manitoba Hydro budgeted a need for a 3.5
10 percent general revenue increase, which was then later
11 changed to 2.5 percent for this fiscal year, if we
12 start recognizing the 2.5 percent from the January
13 1st, 2019 rate increase into general revenues, that
14 doesn't necessarily offset that 3.5 percent or 2.5
15 percent budget for capital costs -- increase in
16 capital?

17 MR. AUREL TESS (by Teams): The 3.5
18 percent was -- was in our -- in our budget for fiscal
19 year '21/'22. That was -- that was what -- what was
20 budgeted and that was approved and that was effective
21 October 1, 2021. So that was the assumption that was
22 made in the budget.

23 And just -- can you repeat the second
24 part of your question? I think the two-point-five
25 (2.5) is what you were referencing, right?

1 MS. EMILY GUGLIELMIN (by Teams):
2 Yeah. Like, starting to recognize that 2.5 percent
3 into general revenue, I'm wondering if that can offset
4 some of the -- what Manitoba Hydro is putting forward
5 as increase to its revenue due to capital -- new
6 capital projects coming into service.

7 MR. AUREL TESS (by Teams): Well --
8 okay. So if we go to -- bear with me for a moment.
9 I'm just going to find the exhibit that might explain
10 this.

11

12 (BRIEF PAUSE)

13

14 MR. AUREL TESS (by Teams): So we have
15 a schedule that outlines our capital costs over three
16 (3) years. And we've already considered the major
17 capital reserve amortization within -- within our rate
18 increase Application.

19

20 (BRIEF PAUSE)

21

22 MR. AUREL TESS (by Teams): Just bear
23 with me for a moment. I'm just going to find the
24 exhibit.

25

1 (BRIEF PAUSE)

2

3 MR. AUREL TESS (by Teams): Ms.
4 Schubert, could we go to page 36 of the Application?

5

6 (BRIEF PAUSE)

7

8 MR. AUREL TESS (by Teams): Okay.
9 Thank you very much.

10 So we've -- we've considered the
11 amortization of the capital reserve within our
12 calculations of -- of the rate increase we are seeking
13 here.

14 The 3.5 percent that was budgeted is
15 really tying back to this increase in our cost
16 structure that's happening at Manitoba Hydro.

17 So, when you look at this chart, you
18 can see what's happening. So in '21/'22 the net
19 impact 619 million, '22/'23 785 million, '23/'24 88 --
20 881 million and that's after the amortization of the
21 reserves for both Bipole and -- and Keeyask.

22 And so going into future years, this
23 number will reach, I believe, \$960 million and that's
24 without the amortization of the reserve.

25 So, it really is necessary to consider

1 that when you're looking at the Application. These
2 are costs that are coming to Manitoba Hydro and will
3 be there for long -- a long period of time.

4 MS. EMILY GUGLIELMIN (by Teams): I'm
5 not -- I guess, really the question that I was get --
6 like, what I was talking about was: Aside from the
7 amortization of that account, once it's amortized, the
8 rate increase that used to go to the account, is now
9 going to general revenues.

10 I think that was more that I was --
11 does that change anything?

12 MR. AUREL TESS (by Teams): Sorry, one
13 moment.

14

15 (BRIEF PAUSE)

16

17 MR. AUREL TESS (by Teams): Yeah, I
18 can't confirm that it -- it is in the revenue line,
19 the -- the offset though is in the net movement
20 account where it is deferred.

21 So, you can see it in the revenue
22 lines, but, essentially what happens, is with the
23 accounting behind it, is it gets deferred through the
24 net movement account. So it is already accounted for
25 in the revenue lines.

1 MS. EMILY GUGLIELMIN (by Teams): I'm
2 just going to move on for the sake of time.

3 I understand that although it hadn't
4 been aware of the extent of the drought, Manitoba
5 Hydro has known of some drought impacts since at least
6 June of 2021. Is that correct?

7 MR. AUREL TESS (by Teams): That would
8 be correct.

9 MS. EMILY GUGLIELMIN (by Teams): And,
10 we were just discussing about how there was a budgeted
11 rate increase for 3.5 percent, was later reduced to
12 2.5 percent. So, just in that context, if we could
13 turn to page 13 of our Book of Documents.

14 And here, Manitoba Hydro has stated
15 that in determining the proposed level of the rate
16 increase in its application, it considered the
17 principles of rate stability and predictability for
18 customers and the current pandemic, period of higher
19 inflation and higher natural gas costs, when balancing
20 the needs of the Utility.

21 Is that an accurate summary?

22 MR. AUREL TESS (by Teams): Sorry, yes
23 it is.

24 MS. EMILY GUGLIELMIN (by Teams): And
25 if you could turn to page 14, the last page.

1 This is from Manitoba Hydro's Direct
2 Evidence Presentation. It states that Manitoba Hydro
3 is committed to establishing and maintaining strong
4 mutually beneficial relationships with Indigenous
5 communities.

6 And I just want to confirm that the
7 term 'Indigenous communities', to your knowledge, that
8 includes First Nations? Is that correct?

9 MR. AUREL TESS (by Teams): Yes, that
10 is correct.

11 MS. EMILY GUGLIELMIN (by Teams): And
12 given its historical relationship with First Nations
13 and its stated commitment to maintaining relationships
14 with First Nations, did Manitoba Hydro consider the
15 impacts of this requested rate increase on First
16 Nations customers, or the impacts of any rate increase
17 that it forecasted for this year?

18 MR. AUREL TESS (by Teams): Just one
19 (1) moment please.

20

21 (BRIEF PAUSE)

22

23 MR. AUREL TESS (by Teams): In -- in
24 developing our Application, we considered the impacts
25 on all customers, including Indigenous communities,

1 yes.

2 MS. EMILY GUGLIELMIN (by Teams): And
3 are you able to provide specifics of how you -- how
4 you contemplated that?

5 MR. AUREL TESS (by Teams): Well, I
6 think we can go back to, I think what you were asking
7 about at the beginning, in terms of the -- the impact
8 on -- on rates that we considered not having rate
9 shock to customers.

10 We know that we can't pay for the cost
11 of this -- the cost of this drought in one year. I
12 think we were looking at 22 percent increase based on
13 the -- the cash flow problem and a 12 percent increase
14 based on the net income revenue requirement.

15 So, certainly that is not something
16 that our customers could absorb, or not reasonably
17 absorb, in one -- in one (1) year, or two (2) years.
18 So, we considered that.

19 We also considered whether or not we
20 should be passing these costs on to future
21 generations. I think we talked a little bit about
22 that and how to, at least, recover part of -- part of
23 the overhead costs, which is the interest rate and
24 there -- there's a little bit that's being collected
25 in terms of repaying that principal that will have to

1 be borrowed on the market this year as we go through
2 this drought period.

3 So, those were some of the
4 considerations, for sure.

5 MS. EMILY GUGLIELMIN (by Teams):
6 Isn't that kind of difficult to understand the inter-
7 generational impact, if you don't have a long-term
8 financial forecast?

9 MR. AUREL TESS (by Teams): So, in
10 that regard, I -- I would like to go to -- go back to
11 the transcript of yesterday -- sorry, that was -- it
12 was actually on Friday, where it was discussed by Ms.
13 Grewal the reasons for not having the long-term
14 forecast.

15 And I believe in the transcript, page
16 154-155.

17 "So, it's not that Manitoba Hydro
18 does not believe in a long-term
19 forecast. We truly believe it is an
20 excellent tool for rate setting.
21 But, at the same time, we do -- do
22 not want to provide PUB with a plan
23 based on uncertain data for
24 something as important as rate-
25 setting."

1 Ms. Grewal did talk about the evolving
2 energy landscape and having the correct assumptions
3 that underpin the financial forecast.

4 So, there's a considerable amount of
5 uncertainty and the potential future customer needs,
6 expectations and costs, these will all impact our --
7 our long-term forecast.

8 Energy policy is another key variable
9 and the implementation of -- of that -- that policy,
10 will bring about different assumptions.

11 Customer energy choices, the pace and -
12 - and timing of electrification as we go through and
13 the impact of that on the Manitoba market.

14 MS. EMILY GUGLIELMIN (by Teams): And
15 did Manitoba Hydro consider, or engage with First
16 Nations customers, on the impact of the drought on
17 First Nations, particularly in communities affected by
18 hydro development and the impact of the operation of
19 controlled structures combined with the drought on
20 access to traditional economies and resources?

21 MR. AUREL TESS (by Teams): Just give
22 me one moment please.

23

24 (BRIEF PAUSE)

25

1 MR. AUREL TESS (by Teams): I would
2 like to pass it off to Mr. Kevin Gawne to respond to
3 that question.

4 MR. KEVIN GAWNE (by Teams): Good
5 morning. This is Kevin Gawne. Yes, we -- we did
6 consider the impacts of our operation, certainly on
7 downstream users of our facilities.

8 Communities along the lower Nelson
9 River were experiencing water levels for that time of
10 year that it -- they haven't -- hadn't seen since the
11 -- the drought of 2003/'04.

12 So, certainly water levels will -- were
13 well below what -- what we've seen in those areas for
14 a number of years. So, access to -- access for
15 resource users was expressed as an issue.

16 In the July time frame we had reduced
17 our flows, managed our outflows from Lake Winnipeg to
18 con -- to -- to prepare for the continued drought,
19 essentially.

20 And we did go down on our releases to
21 licensed minimum, but there was serious concerns
22 expressed by First Nations communities downstream.

23 At that time we were able to slightly
24 adjust flows up to somewhat mitigate that impact and -
25 - and we -- we've fully recognized that there is

1 impacts for operations on downstream communities and I
2 -- I can say that those operations were done for
3 energy reliability purposes.

4 And recognizing certainly that there
5 was well below average water levels experienced in the
6 communities downstream.

7 MS. EMILY GUGLIELMIN, (by Teams): And
8 in preparing this Application and deciding on the
9 level of rate relief that would be requested, did
10 Manitoba consider the principle of reconciliation?

11 Sorry. Did you catch --

12 MR. AUREL TESS (by Teams): Yeah,
13 sorry, we did consider, you know, reconciliation, in
14 the context of all of our customers.

15 Just to point out, I'm -- I'm not the
16 VP of this area. We do have a VP dedicated to
17 Indigenous relations and other stakeholder relations
18 and my awareness of the engagement there is at a
19 pretty high level but there is significant engagement
20 going on with Indigenous communities throughout
21 Manitoba.

22 MS. EMILY GUGLIELMIN (by Teams): Did
23 that VP contribute to making this rate Application?

24 MR. AUREL TESS (by Teams): Certainly,
25 as a team, our Executive Leadership Team considers all

1 of the aspects of the Application. It was something
2 that was vetted with our Executive Leadership Team and
3 everyone had input into it as well.

4 MS. EMILY GUGLIELMIN (by Teams): My
5 last question is: Assuming you are aware of the issue
6 of higher energy poverty issues for First Nations
7 customers, to your knowledge, is that still a
8 continuing problem?

9 MR. AUREL TESS (by Teams): Just one
10 (1) moment please.

11

12 (BRIEF PAUSE)

13

14 MR. AUREL TESS (by Teams): I'm
15 certainly aware of the situation and the impacts on
16 our customers and it was something that was considered
17 in this Application in terms of the inflationary
18 impacts that are currently being felt in the economy,
19 you know, the high price of energy to heat your home
20 and so on.

21 And also the impacts of the pandemic
22 and I think throughout the pandemic, Manitoba Hydro
23 has recognized that there are certain people that have
24 challenges with paying their bills, for example, and
25 we do make plans and concessions with them to -- to

1 assist them throughout that process.

2 So, that's -- that's part of our
3 ongoing mandate is to -- is to provide that service to
4 our clients and to be compassionate when -- when
5 required in terms of people's particular situations.

6 MS. EMILY GUGLIELMIN (by Teams):

7 Okay. Thank you. I think I'm up for time now but
8 thank you for answering my questions.

9 MR. AUREL TESS (by Teams): You're
10 welcome.

11 MR. CHAIRPERSON: Thank you, counsel.
12 We're hearing banging in the background. I don't know
13 where that's located.

14 Anyways, we're going to take the early
15 morning break now, in order to permit the Consumers
16 Coalition to move into the Hearing Room to conduct
17 their cross-examination, so, if we could return at --
18 for ten o'clock. Thank you.

19 MR. AUREL TESS (by Teams): Thank you.

20

21 --- Upon recessing at 9:45 a.m.

22 --- Upon resuming at 10:03 a.m.

23

24 THE CHAIRPERSON: Okay. If we can
25 resume again, Mr. Williams -- and I have you marked

1 down, so I don't get it wrong, to 12:15.

2

3 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

4 DR. BYRON WILLIAMS: Thank you, Mr.
5 Chair, and good morning, members of the Panel. Just -
6 - there -- we have prepared a -- an exhibit which
7 includes excerpts from prior Board Orders, as well as
8 prior material prepared by Manitoba Hydro.

9 Before I ask it to be introduced, I
10 just wanted to make sure that our friends at Manitoba
11 Hydro do not object to its admission. I'm certainly
12 prepared to speak to it, but are there -- hearing no
13 objections, we'd ask that it be introduced.

14 MR. BRENT CZARNECKI (by Teams): Good
15 -- good morning, Mr. Chairman and Panel members. It's
16 Brent Czarnecki, counsel for Manitoba Hydro. We do
17 not object at this stage to the exhibit being entered.

18 However, I would, as you would expect,
19 as the documents are being referenced to our
20 witnesses, we will hold our fire on any relevance
21 arguments or otherwise. But for now, we will let Mr.
22 Williams proceed.

23 One (1) other caution would be that, to
24 the extent some of these documents are not referenced,
25 that of course they then don't form part of the record

1 for the Board's decision making in this process
2 because I understand Mr. Williams may use some of
3 these documents.

4 DR. BYRON WILLIAMS: Yes. And we
5 thank our Learned Friend for that, and we would ask
6 accordingly, Mr. Chair, that it be introduced as
7 Consumer Coalition Exhibit CC-4, please.

8

9 --- EXHIBIT NO. CC-4: Consumers Coalition Book
10 of Documents.

11

12 CONTINUED BY DR. BYRON WILLIAMS:

13 DR. BYRON WILLIAMS: And to the Hydro
14 panel, I can indicate that most of my questions will
15 be directed to Mr. Tess. But less Ms. Gregorashuk,
16 Ms. Gawne, or -- Mr. Gawne or Mr. Fogg feel slighted,
17 we -- I do have a few questions for each of them as we
18 move on with the cross-examination.

19 If I could ask Ms. Schubert to turn to
20 the Manitoba Hydro 70th Annual Report for the year
21 ended March 31st, 2021, and in particular start with
22 page 50, please.

23 And, Mr. Tess, this -- this annual
24 report was -- was issued in the summer of 2021.

25 Is that correct, sir?

1 MR. AUREL TESS (by Teams): Just one
2 (1) moment. I'm just going to get the actual issue
3 date.

4

5 (BRIEF PAUSE)

6

7 MR. AUREL TESS (by Teams): My
8 recollection is it was issued in September.

9 DR. BYRON WILLIAMS: Okay. Thank you
10 for that. And the -- the consolidated financial
11 statements form part of the annual report, agreed,
12 sir?

13 MR. AUREL TESS (by Teams): Yes.

14 DR. BYRON WILLIAMS: And they, of
15 course, were prepared by the management of the
16 Manitoba Hydro-Electric Board.

17 Is that correct, sir?

18 MR. AUREL TESS (by Teams): That's
19 correct. The financial statements are prepared by the
20 team at Manitoba Hydro, the finance team. We do have
21 an Audit and Finance Committee where we have, for
22 example, the auditor general representation on the
23 Audit and Finance Committee and board members.

24 And also, our financial statement
25 auditors sit on our Audit and Finance Committee who --

1 who do quite a thorough review of -- of the financial
2 statements and supporting information that we present
3 to them at the meeting in June.

4 DR. BYRON WILLIAMS: Thank you for
5 that. And at the heart of it, sir, your management
6 team is responsible for the integrity, consistence --
7 consistency, and reliability of the information
8 presented, agreed, sir?

9 MR. AUREL TESS (by Teams): Just one
10 (1) moment.

11 DR. BYRON WILLIAMS: This is not
12 contentious, sir.

13

14 (BRIEF PAUSE)

15

16 MR. AUREL TESS (by Teams): We are
17 responsible for the financial statements and producing
18 the financial statements, but I do want to point out,
19 though, that there is management representation that -
20 - that gets signed off. As I mentioned, the audit and
21 finance team is also -- and the board also approves
22 the financial statements.

23 DR. BYRON WILLIAMS: Right, and thank
24 you for that.

25 MR. AUREL TESS (by Teams): No

1 problem.

2 DR. BYRON WILLIAMS: And of course,
3 sir, you were one (1) of the signing authorities for
4 these financial statements.

5 Is that correct, sir?

6 MR. AUREL TESS (by Teams): That's
7 correct.

8 DR. BYRON WILLIAMS: And leaving aside
9 the consolidated financial statements, sir, there is
10 also additional discussion of financial matters
11 elsewhere in the annual report.

12 Would that be fair?

13 MR. AUREL TESS (by Teams): There is
14 the -- the management discussion and analysis where we
15 go through -- it's a historical primarily analysis of
16 -- of the financial statements providing supplementary
17 information for the reader. And there is an outlook
18 section as well.

19 DR. BYRON WILLIAMS: And you have
20 reviewed that material elsewhere in the annual report,
21 correct, sir?

22 MR. AUREL TESS (by Teams): Yes.

23 DR. BYRON WILLIAMS: And you're
24 confident as to its reliability?

25 MR. AUREL TESS (by Teams): I am.

1 DR. BYRON WILLIAMS: Thank you. I
2 wonder if we could turn to page 104, note 30, under
3 the heading 'Liquidity Risk'.

4 And, sir, in terms of liquidity risk,
5 that refers to the -- the challenge or the risk that
6 Hydro will not be able to meet its financial
7 obligations as they come due.

8 Is that correct, sir?

9 MR. AUREL TESS (by Teams): That's
10 correct.

11 DR. BYRON WILLIAMS: When we think of
12 how Manitoba Hydro meets its financial obligations,
13 sir, it would be fair to date -- to say that it does
14 so through three (3) primary mech -- mechanisms, being
15 cash generated from operations, short-term borrowings,
16 and long-term borrowings advanced from the Province of
17 Manitoba?

18 Would that be fair, sir?

19 MR. AUREL TESS (by Teams): Yeah,
20 that's fair.

21 DR. BYRON WILLIAMS: And, sir, the
22 majority of Manitoba Hydro's long-term debt is
23 obtained through advances from the Province of
24 Manitoba, correct?

25 MR. AUREL TESS (by Teams): That's

1 correct.

2 DR. BYRON WILLIAMS: And, sir, without
3 asking you to be a legal expert, but mindful that you
4 do have to be aware of your statutory authority, in
5 terms of long-term borrowings, Hydro's authority to
6 issue debt is provided through the Loan Act, sir.

7 Is that correct?

8 MR. AUREL TESS (by Teams): That NO...

9

10 (BRIEF PAUSE)

11

12 MR. AUREL TESS (by Teams): Yeah. It
13 currently is the Loan Act. I -- I believe there's
14 some adjustments being considered by the government in
15 terms of how that would work, and they're looking at
16 kind of incorporating it into the Appropriations Act,
17 as I understand it.

18 DR. BYRON WILLIAMS: Under the current
19 -- as it stands currently in terms of your authority,
20 it's under the Loan Act, and that's where you get your
21 borrowing authority to meet your new debt financial
22 requirements, correct?

23 MR. AUREL TESS (by Teams): That's
24 correct, yeah.

25 DR. BYRON WILLIAMS: And your

1 authority to refinance any maturing long-term debt
2 currently is provided through the Financial
3 Administration Act, agreed?

4 MR. AUREL TESS (by Teams): Yes, I
5 agree with that.

6 DR. BYRON WILLIAMS: And, sir, long-
7 term borrowings of Manitoba Hydro are unconditionally
8 guaranteed as to principal and interest by the
9 Province of Manitoba, correct?

10 MR. AUREL TESS (by Teams): That is
11 correct.

12 DR. BYRON WILLIAMS: And, sir, the
13 primary use of the long-term borrowing program is to
14 provide debt financing for investment in new
15 generation and transmission, agreed?

16 MR. AUREL TESS (by Teams):
17 Essentially, it's been major capital, yeah. That's --
18 that's the primary use of -- of new debt -- not the
19 refinancing portion, of course.

20 DR. BYRON WILLIAMS: Thank you. And,
21 sir, turning now to short-term borrowing, prior to
22 recent Manitoba Hydro Act amendments, provision was
23 made under the Manitoba Hydro Act for a \$500 million
24 notes payable credit facility, agreed?

25 MR. AUREL TESS (by Teams): Yes.

1 DR. BYRON WILLIAMS: And that 500
2 million, sir, is unconditionally guaranteed as to
3 principal and interest by the Province of Manitoba,
4 correct?

5 MR. AUREL TESS (by Teams): That is my
6 understanding, yes.

7 DR. BYRON WILLIAMS: Now, sir, under
8 the recent revisions to the Manitoba Hydro Act, the
9 Corporation now has been granted the power to issue
10 short-term promissory notes in the name of your board
11 up to an aggregate sum of 1.5 billion of principal
12 outstanding at any one time.

13 Is that correct, sir?

14 MR. AUREL TESS (by Teams): Just give
15 me a moment to consult.

16

17 (BRIEF PAUSE)

18

19 MR. AUREL TESS (by Teams): So my
20 understanding is the Act has passed giving the
21 increased limit to 1.5 billion. However, we are still
22 not able to access that full credit limit. It's
23 something that still has to go through the approval
24 process with government.

25 DR. BYRON WILLIAMS: So what you're

1 telling us, sir, is that you can access the 500
2 million which is unconditionally guaranteed, but in
3 terms of the extra billion dollars, that's still mired
4 in some sort of approval process at the Manitoba
5 Legislature.

6 Is that correct, sir?

7 MR. AUREL TESS (by Teams): I'm not
8 sure I'd use the word 'mired', but it definitely is in
9 the process.

10 DR. BYRON WILLIAMS: I thought you
11 might take issue with that, sir. Good pick-up.

12 THE CHAIRPERSON: Sorry. If I can
13 just interject, and I may have written this down
14 incorrectly. I believe your suggestion was 1.2
15 billion?

16 DR. BYRON WILLIAMS: If it was, Mr.
17 Chair, I misspoke.

18 THE CHAIRPERSON: One point five
19 (1.5)?

20 DR. BYRON WILLIAMS: It was 1.5
21 billion.

22 THE CHAIRPERSON: Thank you. Okay.

23 DR. BYRON WILLIAMS: And if you were
24 looking for a reference for that -- okay. Okay.

25

1 CONTINUED BY DR. BYRON WILLIAMS:

2 DR. BYRON WILLIAMS: And, Mr. Tess,
3 the primary use of the short-term borrowing program is
4 to safeguard the Corporation from liquidity risk by
5 providing a credit facility to support the
6 Corporation's temporary cash requirements, agreed?

7 MR. AUREL TESS (by Teams): I would
8 agree with that, sure.

9 DR. BYRON WILLIAMS: And, sir, as of
10 March 31st, 2021, the Corporation had no amounts
11 outstanding on its short-term program, correct?

12 MR. AUREL TESS (by Teams): As of
13 March 31, 2021?

14 DR. BYRON WILLIAMS: Yes, sir.

15 MR. AUREL TESS (by Teams): Just let
16 me consult on that.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Yeah, I
21 can confirm it was zero at that time.

22 DR. BYRON WILLIAMS: And, sir, today,
23 is there any amount outstanding on its short-term
24 program, i.e., has it borrowed any money that is
25 outstanding?

1 MR. AUREL TESS (by Teams): No, it's
2 zero.

3

4 (BRIEF PAUSE)

5

6 DR. BYRON WILLIAMS: And, sir, it
7 would be accurate to say that, for the privilege of
8 access to the long-term borrowing unconditionally
9 guaranteed by the province of Manitoba, as well as 500
10 million in terms of short-term long -- short-term
11 borrowing unconditionally guaranteed by the province,
12 Manitoba Hydro ratepayers paid over \$220 million in
13 the 2021 fiscal year, sir?

14 MR. AUREL TESS (by Teams): And you're
15 referring to the rate guaranteed pay?

16 DR. BYRON WILLIAMS: Yes. Yes, I am.

17 MR. AUREL TESS (by Teams): In fiscal
18 '21, did you say?

19 DR. BYRON WILLIAMS: Yeah, 2021.

20 MR. AUREL TESS (by Teams): Okay.
21 Okay. Just let me consult.

22 DR. BYRON WILLIAMS: If you need a
23 note, sir, it's note 32 in this -- in this document.

24 Can you accept that, subject to check,
25 to move things along, sir?

1 MR. AUREL TESS (by Teams): Yeah, I
2 can accept that, subject to check.

3 DR. BYRON WILLIAMS: Okay. And would
4 it be fair to suggest, sir, that for the '22/'23 year,
5 Manitoba ratepayers can be expected to pay in the
6 range of 240 million by way of that provincial debt
7 guarantee fee assuming that the total long-term debt
8 for '22/'23 is in the \$24 billion range?

9 MR. AUREL TESS (by Teams): I believe
10 there was a schedule that was entered into evidence on
11 Friday, if I recall.

12 DR. BYRON WILLIAMS: Okay.

13 MR. AUREL TESS (by Teams): Just give
14 me a moment to find it. Or maybe, Ms. Schubert, could
15 you bring it up?

16 DR. BYRON WILLIAMS: Sir, if you need
17 a reference, oh, PUB MFR-6, page 2, suggests that the
18 twenty-four (24) -- that the expected long-term debt
19 for '22/'23 is in the range of 24.4.

20 Can you accept that, subject to check,
21 sir?

22 MR. AUREL TESS (by Teams): Yes.

23 DR. BYRON WILLIAMS: Okay. So, for
24 the '22/'23 year, ratepayers will be paying almost a
25 quarter of a billion dollars, or about 10 percent of

1 Manitoba Hydro's total revenues, for access to the
2 credit facilities of the province.

3 Would that be fair, sir?

4 MR. AUREL TESS (by Teams): Yes.

5 DR. BYRON WILLIAMS: Okay. And, sir,
6 in terms of your consolidated financial statements,
7 would it be accurate to suggest that they do not
8 provide disclosure of any emergency concern over
9 liquidity in the 2020/'21 fiscal year?

10

11 (BRIEF PAUSE)

12

13 MR. AUREL TESS (by Teams): Just let
14 me consult on that, please.

15

16 (BRIEF PAUSE)

17

18 MR. AUREL TESS (by Teams): I'm trying
19 to recall. I don't think we mentioned liquidity risk
20 as a primary risk in the -- in the annual statement
21 that you're referring to, Mr. Williams.

22 DR. BYRON WILLIAMS: Thank you, Mr.
23 Tess. Mr. Tess, you joined Manitoba Hydro on or about
24 January 2020 when you were appointed to the position
25 of Vice-president and Chief Financial Officer.

1 Is that correct, sir?

2 MR. AUREL TESS (by Teams): That's
3 correct.

4 DR. BYRON WILLIAMS: And prior to
5 that, you had been provincial comptroller and Chief
6 Financial Officer for the province since 2016, agreed?

7 MR. AUREL TESS (by Teams): Correct.

8 DR. BYRON WILLIAMS: And, sir, would
9 it be accurate to suggest that you had never worked
10 for a Crown utility prior to being appointed CFO of
11 Manitoba Hydro?

12 MR. AUREL TESS (by Teams): That's
13 accurate, yeah.

14 DR. BYRON WILLIAMS: So, of course,
15 sir, when you joined the Corporation, you would have
16 endeavoured to become aware of the Corporation's
17 historic approach to major issues, including risk.

18 Would that be fair?

19 MR. AUREL TESS (by Teams): Yeah, I
20 think that's fair.

21 DR. BYRON WILLIAMS: And, Mr. Tess, on
22 Friday you heard your Chief Executive Officer testify
23 in terms of the importance of the Public Utility Board
24 to Manitoba Hydro in terms of rate setting, agreed?
25 You heard her speak of that importance of that

1 relationship, sir?

2 MR. AUREL TESS (by Teams): I believe
3 I spoke to it, as well, in my presentation, yes.

4 DR. BYRON WILLIAMS: Thank you for
5 that. And so, you would agree, sir, that in your role
6 as Chief Financial Officer, it is incumbent upon you
7 to become generally familiar with the rate-setting
8 process for Manitoba Hydro?

9 MR. AUREL TESS (by Teams): Yes.

10 DR. BYRON WILLIAMS: And, sir, you
11 would recognize in -- at the level of that general
12 familiarity that an interim rate application is an
13 expedited process compared to the process followed by
14 the PUB in a General Rate Application, or GRA, agreed?

15 MR. AUREL TESS (by Teams): That's my
16 understanding, yes.

17 DR. BYRON WILLIAMS: And, sir, you
18 would understand that, in terms of the nature of the
19 evidence before the PUB, it would be significantly
20 less in an interim process than in a full General Rate
21 Application.

22 Could we agree at that high level, sir?

23 MR. AUREL TESS (by Teams): Yes.

24 DR. BYRON WILLIAMS: And, sir, in
25 preparing for your role as Chief Financial Officer or

1 in preparing for this interim hearing, would you have
2 had occasion to have reviewed in whole or in part the
3 Public Utilities Board decision for the 2017/'18
4 General Rate Application and the 2018/'19 General Rate
5 Application being Decision 59/18?

6 MR. AUREL TESS (by Teams): I did -- I
7 did review that application. 59/18; I don't recall
8 that specific Order, but, yes.

9 DR. BYRON WILLIAMS: And, sir, would
10 you have reviewed the independent expert report by
11 METSCO, M-E-T-S-C-O, on capital asset management that
12 was submitted in the context of that 2017/'18,
13 2018/'19 GRA?

14 MR. AUREL TESS (by Teams): Just one
15 (1) moment, please.

16
17 (BRIEF PAUSE)

18
19 MR. AUREL TESS (by Teams): I'm not
20 thoroughly familiar with that report, no.

21 DR. BYRON WILLIAMS: No. That's fine.
22 And thank you for that, sir.

23 MR. AUREL TESS (by Teams): Okay.

24 DR. BYRON WILLIAMS: And, again, just
25 would you have reviewed the independent expert report

1 by Morrison Park on Manitoba Hydro's access to the
2 capital markets that was submitted as part of that
3 GRA?

4 MR. AUREL TESS (by Teams): No, I did
5 not review that.

6 DR. BYRON WILLIAMS: Okay. Thank you.
7 Sir -- and just moving up one (1) year.

8 Would you have had occasion to have
9 reviewed in whole or in part the PUB decision for the
10 2019/'20 General Rate Application?

11 MR. AUREL TESS (by Teams): Yes.

12 DR. BYRON WILLIAMS: Okay.

13

14 (BRIEF PAUSE)

15

16 DR. BYRON WILLIAMS: And so, sir, you
17 would have reviewed the findings of the Public Utility
18 Board from that decision in terms of OM&A
19 expenditures, agreed?

20 MR. AUREL TESS (by Teams): Yes.

21 DR. BYRON WILLIAMS: And finally, sir,
22 in preparing for your role as CFO or preparing for
23 this Hearing, would you have had occasion to have
24 reviewed in whole or in part the 2014 Public Utilities
25 Board report regarding the Need For And Alternatives

1 To Manitoba Hydro's Preferred Development Plan?

2 MR. AUREL TESS (by Teams): At a high
3 level, yeah.

4 DR. BYRON WILLIAMS: Okay. Thank you.
5 And, sir, at that high level, you're generally aware
6 that the go-ahead for Keeyask, Bipole 3, and the
7 Manitoba and Minnesota transmission line was given by
8 the Manitoba Government in that 2013 to 2014 time
9 period. Would that be your understanding, sir?

10 MR. ALASTAIR FOGG (by Teams): Mr.
11 Williams, if I could, I don't believe Bipole would
12 have necessarily been connected with those other
13 projects and its approval. It would have been timed
14 at a different point in time.

15 DR. BYRON WILLIAMS: Okay, Mr. --
16 that's -- that's --

17 MR. ALASTAIR FOGG (by Teams): Mr.
18 Fogg, sorry. Sorry.

19 DR. BYRON WILLIAMS: No, my apologies.
20 And, Mr. Fogg, again, I wasn't speaking specifically
21 to the NFAT hearing but, generally, in that 2013/2014
22 period, we saw approval for Bipole 3, Keeyask, and the
23 Manitoba Minnesota transmission line. Agreed?

24 MR. ALASTAIR FOGG (by Teams): I -- I
25 think, Mr. Williams, I'd have to check the exact

1 timing of those decisions --

2 DR. BYRON WILLIAMS: Fair enough.

3 MR. ALASTAIR FOGG (by Teams): -- and
4 whether they occurred.

5 But I -- I just wanted to clarify that
6 I don't believe they were all connected with each
7 other at the same time.

8 DR. BYRON WILLIAMS: Fair enough.
9 Thank you.

10 Going back to you, Mr. Tess, you would
11 recognize that the Public Utilities Board decision in
12 proceedings leader to the -- the '17/'18, '18/'19 or
13 '19/'20 General Rate Applications were based upon an
14 extended process with a much more in-depth examination
15 of issues than in an Interim Rate Application.

16 Would you accept that, Mr. Tess?

17 MR. AUREL TESS (by Teams): Yeah, I
18 would accept that.

19 DR. BYRON WILLIAMS: And so, sir,
20 recognizing that this is an Interim Rate Application,
21 and not a full General Rate Application, you are not
22 suggesting, in any way, that the Public Utilities
23 Board should use this expedited process from an
24 Interim Application to overturn key findings from
25 decisions such as the Order 59/18 or Order 69/19

1 relating to those General Rate Applications.

2 MR. AUREL TESS (by Teams): One (1)
3 moment, please.

4

5 (BRIEF PAUSE)

6

7 MR. AUREL TESS (by Teams): I am able
8 to speak to the facts of our Application as currently
9 submitted and what we know to be facts within that
10 Application.

11 DR. BYRON WILLIAMS: Okay. Thank you,
12 sir. And you're not suggesting, in support of this
13 application, that Manitoba Hydro has provided any
14 independent expert report on capital asset management,
15 for example? That's not been provided in the course
16 of the Interim Application, sir?

17 MR. AUREL TESS (by Teams): No, it has
18 not.

19 DR. BYRON WILLIAMS: If we could go
20 back to the -- the annual report, page 107, note 31,
21 please.

22 And, Mr. Tess, directing your attention
23 to the very first line there, you'll see a statement
24 in your consolidated financial statement that:

25 "Manitoba Hydro manages its capital

1 structure to ensure that there is
2 sufficient equity to absorb the
3 financial effects of adverse
4 circumstances."

5 Do you see that, sir?

6

7

(BRIEF PAUSE)

8

9 DR. BYRON WILLIAMS: Mr. Tess, do you
10 see that? That's the first line under note 31.

11 MR. AUREL TESS (by Teams): Yes, I do.

12 DR. BYRON WILLIAMS: And that was the
13 position of Manitoba Hydro in its annual report filed
14 in September of 2021, sir, is that correct?

15 MR. AUREL TESS (by Teams): That's
16 correct.

17 DR. BYRON WILLIAMS: Okay. And, sir,
18 as Chief Financial Officer, of course, you're aware of
19 Manitoba Hydro's reliance on water flow to generate
20 the vast bulk of its electricity. Agreed, sir?

21 MR. AUREL TESS (by Teams): Yeah,
22 That's correct.

23 DR. BYRON WILLIAMS: And so, again, at
24 a high level, it would be your general understanding
25 that drought risk has been an important part of

1 Manitoba Hydro's operational and financial planning
2 over many decades, correct?

3 MR. AUREL TESS (by Teams): Yeah,
4 that's -- That's correct. So I -- I would like to
5 turn our Application, page 22, Ms. Schubert, if
6 possible in response to that question.

7

8 (BRIEF PAUSE)

9

10 MR. AUREL TESS (by Teams): So in this
11 -- in this section of our Application, we talk about
12 our debt-to-equity ratio. We talk about our financial
13 metrics.

14 We are proposing, in this Application,
15 to use a combination of debt and rate increases to
16 address the drought. And this was the direction of
17 this Board in Order 69/19.

18 And you can that the debt ratio within
19 our Application is moving from where it was in this
20 fiscal year, eight-six (86), to approximately 88
21 percent in '22/'23.

22 So, essentially, we are proposing to
23 use a combination of debt and rate increases to
24 address the drought.

25 DR. BYRON WILLIAMS: Sir, to your

1 knowledge, the -- and the last major drought at
2 Manitoba Hydro was on or about the 2003/2004 year,
3 correct?

4 MR. AUREL TESS (by Teams): I thought
5 it was '02/'03. Subject -- '03/'04? '03/'04, okay.

6 DR. BYRON WILLIAMS: Okay.

7 MR. AUREL TESS (by Teams): Yes.

8 DR. BYRON WILLIAMS: And it would be
9 your understanding, sir, that retained earnings have
10 been a central aspect of Hydro's strategic approach to
11 drought risk management for -- for the years since
12 2003/'04, correct?

13 MR. AUREL TESS (by Teams): I would
14 agree. I think, though, there is some additional
15 information that's -- that's really relevant to the
16 topic you're raising here.

17 And if we go to MFR-6, figure 6(d), Ms.
18 Schubert.

19

20 (BRIEF PAUSE)

21

22 MR. AUREL TESS (by Teams): I believe
23 it's -- the figure I'm looking for is the analysis of
24 cash flow. I believe it's a little bit -- there it
25 is. Thank you.

1 So you can see from this figure that
2 we're projecting borrowing of 348 million for core
3 operations. And that -- that'll add to our debt and
4 interest costs.

5 I just want to clarify too, in terms of
6 the retained earnings. Retained earnings are -- are
7 not a reserve. They aren't liquid assets that can be
8 drawn upon to fund a drought. And using debt means
9 paying higher interest and adding to an already
10 unsustainable level of debt and interest costs.

11 And if you look at the -- the cash flow
12 forecast for '22/'23, that does include the 88 million
13 in projected revenue that would -- that we would get
14 from the 5 percent rate increase on an annual basis.

15 So without that rate increase, we will
16 have to borrow in '22/'23 as well, which is another
17 issue for us in terms of the financial health of the
18 Company.

19 And I do want to point out though we
20 are using a combination of retained earnings and --
21 and rate increase to address this problem.

22 DR. BYRON WILLIAMS: Thank you, Mr.
23 Tess. And just to go back to the question that I
24 actually asked, it would be accurate to say that since
25 the drought of 2004, Manitoba Hydro, with the support

1 of the Public Utilities Board, has been building up
2 retained earnings as a bulwark against drought risk.

3 Agreed, sir?

4 MR. AUREL TESS (by Teams): Just give
5 me a moment, please.

6

7 (BRIEF PAUSE)

8

9 MR. AUREL TESS (by Teams): To answer
10 your question, it would be fair to say that our debt
11 levels have increased. Our retained earnings have
12 increased, our asset levels have increased.

13 Retained earnings and a combination of
14 -- of regulatory action is -- you know, and -- and a
15 combination of using retained earnings and regulatory
16 rate increases, to address all risks, not just drought
17 risk.

18 DR. BYRON WILLIAMS: But, sir, you're
19 not denying my suggestion that a concerted strategy of
20 Manitoba Hydro since the last drought, in concert and
21 with the support of the Public Utilities Board, has to
22 be -- has been to build up retained earnings as a
23 bulwark against drought risk.

24 Agreed sir? That's not really
25 contentious is it?

1 MR. AUREL TESS (by Teams): I wouldn't
2 say its contentious, but I think as we -- we discussed
3 yesterday with Mr. -- Mr. Peters, I believe, the -- we
4 -- we don't have a reserve to address. We don't have
5 a cash reserve to address the drought issue.

6 DR. BYRON WILLIAMS: Yes, thank you
7 for that, sir.

8 I wonder if we can turn now to the
9 Hydro Interim Rate Application Appendix 3, Financial
10 History and PDF page 73, I believe.

11 And, this can go to Mr. Tess, if this
12 is the appropriate witness but, sir, you'll agree that
13 this con -- financial history consolidated was filed
14 as part of the Manitoba Hydro Interim Rate Application
15 rates?

16 MR. AUREL TESS (by Teams): That's
17 correct.

18 DR. BYRON WILLIAMS: And at a high
19 level, if we look across this chart, it looks at
20 certain financial information related to Hydro, from
21 1992 through to 2021, including debt/equity ratio,
22 total assets, total debt and retained earnings.

23 Those are just some of the numerous
24 columns that we see here, sir, would that be fair?

25 MR. AUREL TESS (by Teams): Yes.

1 DR. BYRON WILLIAMS: And, sir, again
2 at the level of high general familiarity, as a senior
3 officer at Manitoba Hydro you are aware, generally,
4 that the most recent hydro electric generating
5 stations built by Hydro, were limestone in the early
6 '90's, Wuskwatim in the early 2010's and Keeyask,
7 which we expect will be completed in '22/'23.

8 Would that be fair, sir, and consistent
9 with your high level understanding?

10 MR. AUREL TESS (by Teams): Yes.

11 DR. BYRON WILLIAMS: And, sir, you are
12 also generally aware that in the early 2000's,
13 Manitoba Hydro was beginning to ramp up for a series
14 of major capital projects, including Wuskwatim,
15 Keeyask, Bipole3 and the Manitoba Minnesota
16 Transmission Line.

17 Would that be your understanding, sir?

18 MR. AUREL TESS (by Teams): That, is,
19 yes.

20 DR. BYRON WILLIAMS: Okay. And, sir,
21 and -- and I wonder if I can ask Ms. Schubert to go
22 over to the retained earnings column and just go to
23 the bottom of that to the 1992 year.

24 Mr. -- Mr. Tess, back in the early
25 1990's you'll see that Hydro's retained earnings were

1 in the range of 183 million, sir?

2 MR. AUREL TESS (by Teams): Yes, I can
3 see that, yeah.

4 DR. BYRON WILLIAMS: Yeah. And if we
5 can go up, Ms. Schubert, to the 2004 year, still under
6 retained earning, so just straight up that column,
7 2004 please.

8 You'll see the figure 734.

9 MR. AUREL TESS (by Teams): Yes.

10 DR. BYRON WILLIAMS: Okay, and -- sir,
11 you'll see in 2000 -- the fiscal year ending in 2003
12 retained earnings were about 1.17 billion, sir,
13 agreed?

14 MR. AUREL TESS (by Teams): Yeah, I
15 think you have to look at the entire report to get the
16 full -- fulsome view of the financial situation.

17 If you -- you mentioned the -- the
18 drought, previously, and if you look at our -- our --
19 our metrics back then, we were in a much better
20 position to react to the drought, so we had, you know,
21 80 percent equity for example.

22 We had assets of \$10 billion. We had a
23 sinking fund balance of \$948 million. As you can see
24 on the graphic there. Would you agree?

25 DR. BYRON WILLIAMS: Sir, you can make

1 that as a statement, it's not up to me to agree with
2 you, but some time we can go out for a coffee and see
3 if I agree with that. We're not --

4 MR. AUREL TESS (by Teams): Sorry --
5 sorry, it's my first time here, but -- when -- when I
6 read the report, these are the numbers that jump out
7 for me --

8 DR. BYRON WILLIAMS: Yeah, and I think
9 --

10 MR. AUREL TESS (by Teams): -- and I -
11 - I think it's relevant to the conversation.

12 DR. BYRON WILLIAMS: So -- and, sir,
13 what you -- you'll also be aware of is that 2003 was
14 after -- about a decade after a major capital project,
15 the last major one had come on-line, that being
16 Limestone. Agreed?

17 MR. AUREL TESS (by Teams): That's
18 fair, yeah.

19 DR. BYRON WILLIAMS: So, the
20 Corporation has an opportunity with the passage of
21 time to build up its assets and reserves. Correct?

22 MR. AUREL TESS (by Teams): Yes.

23 DR. BYRON WILLIAMS: Okay. And then
24 we see the effects of the drought in the -- in the
25 drop in retained earnings to 734 in the fiscal year

1 ending 2004. Correct, sir?

2 MR. AUREL TESS (by Teams): Yes.

3 DR. BYRON WILLIAMS: And then, sir, if
4 we just go up towards the -- the top of the column,
5 let's pick just the 2020 year, for example, there you
6 see Manitoba Hydro's retained earnings being in the
7 range of \$3.1 billion, sir, agreed?

8 MR. AUREL TESS (by Teams): I would
9 agree. You also have to look at the debt level to get
10 a more fulsome picture of the financial position.

11 So, if you scroll over to total
12 Manitoba Hydro debt, it's \$23 billion 288, so we can't
13 just look at the retained earnings column, in my view,
14 to get the more fulsome picture of Manitoba Hydro's
15 financial position.

16 DR. BYRON WILLIAMS: Thank you for
17 that, sir.

18 And just before we leave this page,
19 recognizing that between 2004, Manitoba Hydro had
20 embarked on such a -- a major capital expenditure
21 including Wuskwatim, Bipole3, the Manitoba-Minnesota
22 Transmission Line and Keeyask, you'd agree that a
23 significant number of staff were hired by Hydro to
24 work on these major capital projects over that time
25 period. Agreed?

1 (BRIEF PAUSE)

2

3 MR. AUREL TESS (by Teams): Consulting
4 with my colleagues who were here for that time period,
5 you know, there was a combination of -- of staffing
6 and contractors and re-deployed staff that were
7 utilized for those projects.

8 DR. BYRON WILLIAMS: Thank you for
9 that. What you're telling us is that there was a
10 major ramp-up of people involved with those projects
11 through a combination of new staff, contractors, as
12 well as staff re-deployed to those projects, would
13 that be fair, sir?

14 MR. AUREL TESS (by Teams): Yeah,
15 that's accurate.

16 DR. BYRON WILLIAMS: Okay, thank you.

17 MR. AUREL TESS (by Teams): You're
18 welcome, yes.

19 DR. BYRON WILLIAMS: And, sir, just in
20 terms of that build-up and I'm hoping this won't be
21 contentious or detailed but when we look at that
22 growth of retained earnings between 2004 being 734
23 million to in the range of \$3 billion in 2020, you'll
24 agree that one (1) of those factors that led to that
25 increase in retained earnings were rate increases paid

1 by Manitoba ratepayers? You'll agree with that, sir?

2 MR. AUREL TESS (by Teams): Yeah, I
3 would agree with that but we -- again, you have to
4 look at the debt levels in conjunction with -- with
5 the rate increases that -- that was certainly a factor
6 but the debt levels are also a factor to look at that.

7 MR. BYRON WILLIAMS: And I thank you
8 for that. And again, I can -- I can take you to the
9 Information Request at tab 5 of our Consumers
10 Coalition's Book of Documents, being Information
11 Request PUB Manitoba Hydro 1-3.

12 And, sir, we can either do this at a
13 detailed level or a -- a macro level but you'll see
14 generally what this table is trying to do is look at
15 the percent of rate increase requested by Hydro over
16 time between the period of 1999 to 2018/'19 and then
17 look at the percent approved and then comparing it to
18 -- to the Consumer Price Index and trying to get some
19 sense of the cumulative rate impacts over that time,
20 sir.

21 You see, generally, that is what this
22 information request is attempting to do?

23 MR. AUREL TESS (by Teams): Yes, I can
24 see that.

25 DR. BYRON WILLIAMS: Okay, and, sir,

1 again, I can -- I can take you to the math but, if we
2 go to the percent approved final or interim, focussing
3 on the time period from '04/'05 up to 2017/'18, you'll
4 agree that according to this response prepared by
5 Manitoba Hydro, there were rate increases in each of
6 these years, except for the -- the 2007/'08 year?

7 MR. AUREL TESS (by Teams): My screen
8 is gonna -- I am having some challenges with the
9 screen here. Just give me one (1) moment.

10 UNIDENTIFIED SPEAKER (by Teams): I'd
11 say that's correct but you will make note of '03/'04.

12 MR. BYRON WILLIAMS: I'm sorry. I
13 heard another voice.

14 MR. AUREL TESS (by Teams): Just give
15 us -- give us one (1) moment please, Mr. Williams.

16 Can I just ask you to repeat the
17 question?

18 MR. BYRON WILLIAMS: Sir, between
19 '04/'05 and 27/18, I'll suggest to you that, in all
20 but one of those years, being '07/'08, there was a
21 PUB-approved incr -- rate increase, agreed, sir?

22 MR. AUREL TESS (by Teams): Yes.

23 DR. BYRON WILLIAMS (by Teams): And,
24 sir --

25 MR. ALASTAIR FOGG: Mr. Williams, I

1 apologize for interrupting. I just wonder if I could
2 add, since we -- we've done some reference to the '03
3 drought. I guess - I -- I feel it important just to -
4 - to note the rate increases of that time-frame, the 5
5 percent and the subsequent 2.25 percent increases at
6 that time as well -- as well as the use of the
7 retained earnings, just in relation to what we're
8 talking about today in terms of the drought and action
9 to mitigate the impacts.

10 DR. BYRON WILLIAMS: Thank you --

11 MR. ALASTAIR FOGG (by Teams): Thank
12 you.

13 MR. ALASTAIR FOGG: Sorry for
14 interrupting.

15 MR. BYRON WILLIAMS: -- for that, and
16 I'm gonna guess that was Mr. Fogg but I'm not sure.

17 MR. ALASTAIR FOGG (by Teams): I
18 apologize again. It is Mr. Fogg, correct.

19 MR. BYRON WILLIAMS: Okay, and Hydro
20 will also be aware that subsequent to 2017/'18, there
21 were further increases by the PUB in June of 2018,
22 June of 2019, and then a legislated rate increase
23 effective December 1, 2020, agreed? It's not on this
24 table but that's -- this is -- Manitoba Hydro can
25 agree with that?

1 MR. AUREL TESS (by Teams): I'm going
2 to ask Ms. Gregorashuk to comment on that.

3 MS. SHANNON GREGORASHUK (by Teams):
4 Yes, I can agree with that, Mr. Williams.

5 DR. BYRON WILLIAMS: Thank you, and,
6 Mr. Tess, subject to check, would you accept that the
7 cumulative rate increases from that 204 (sic) period
8 up to 2020/'21 are in excess of 60 percent, sir?

9 Can you accept that, subject to check?

10 MR. AUREL TESS (by Teams): Subject to
11 check, yes.

12 DR. BYRON WILLIAMS: Thank you. Mr.
13 Tess, I have to confess to you, I heard your
14 conversation with Mr. Peters on Friday, about good
15 news, and Mr. Peters is usually not that cheerful, so
16 I -- I thought I would just follow up that
17 conversation a little bit, and I'd like to direct you
18 to PUB-FMR-9, which I think is at PDF page 137 are the
19 references that I'm looking for, please.

20 And, sir, this can -- this was an MFR
21 or Minimum Filing Requirement that repeated an -- an
22 inquiry from the Public Utilities Board from the 19 --
23 2019/'20 General Rate Application that tried to
24 simulate the revenue requirement impact of individual
25 major capital projects, as well as incremental

1 business operation capital and demand-side management.

2 Is that your understanding, sir?

3 We could take you to an earlier page in
4 this response, if that would help you, or can you
5 accept that, subject to check?

6 MR. AUREL TESS (by Teams): Just give
7 me one (1) moment please. I can accept that, subject
8 to check, yeah.

9 MR. BYRON WILLIAMS: Okay. Thank you,
10 and we realize it's not a -- a perfect -- a -- a --
11 analysis, recognizing that Manitoba Hydro's a -- a --
12 a highly integrated system but, in terms of the -- the
13 Great Northern Transmission Line, what this MFR is
14 telling us is that, compared to the 20 -- where we
15 were in 2019/'20, the projected annual revenue
16 requirement of this project has decreased by about
17 \$30 million, agreed, sir?

18 MR. AUREL TESS (by Teams): That's
19 correct.

20 DR. BYRON WILLIAMS: And, if we scroll
21 down, in terms of Bipole 3, as well, sir, you will see
22 again that, compared to where we were looking by in
23 2019/'20, the projected annual rever -- revenue
24 requirement for the Bipole 3 Project has decreased by
25 about \$50 million, agreed, sir?

1 MR. AUREL TESS (by Teams): I agree.

2 DR. BYRON WILLIAMS: And, I wonder if
3 we could go to PUB-MFR-3 PDF, page 112, please. PUB-
4 MFR-3, PDF 112. Thank you. Sir, I want to just.
5 Thank you. That's perfect there, Ms. Schubert.
6 Excuse me one (1) second please.

7 Mr. Tess, I want to direct your
8 attention to the -- under Revenues -- to the Extra-
9 Provincial Revenues, and you will see that the actual
10 revenues from Manitoba Hydro in 2021 were about \$600
11 million. Would that be fair sir? That's extra-
12 provincial.

13 MR. AUREL TESS (by Teams): Correct.

14 DR. BYRON WILLIAMS: And, sir, as we
15 look out to the Preliminary Plan of Manitoba Hydro for
16 2022/23, recognizing that that's based upon your
17 assumptions in terms of water, we see that the
18 projected revenue under the Preliminary Plan is nine
19 hundred and -- a bit over nine hundred million, sir,
20 agreed?

21 MR. AUREL TESS (by Teams): Nine
22 hundred and sixteen million, yes.

23 MR. BYRON WILLIAMS: Yes. So,
24 roughly 300 million more than projected in 2020/'21,
25 correct?

1 MR. AUREL TESS (by Teams): Correct.

2 DR. BYRON WILLIAMS: And, even about a
3 hundred million more than the budget number for the
4 '21/'22 year. Would that be fair, sir?

5 MR. AUREL TESS (by Teams): Yes.

6 DR. BYRON WILLIAMS: And, if we seek
7 to understand factors underlying that \$300 million
8 growth in -- or projected growth, between '22/'23 and
9 2020/'21, would it be fair to suggest that new sales
10 to Saskatchewan Power, as well as sales to Wisconsin
11 Public Service are contributing to that growth, sir?

12 MR. AUREL TESS (by Teams): Yes. Just
13 give me one (1) moment.

14

15 (BRIEF PAUSE)

16

17 MR. AUREL TESS (by Teams): Ms.
18 Schubert, could you bring up MFR-15, please?

19

20 (BRIEF PAUSE)

21

22 DR. BYRON WILLIAMS: You might be --
23 taking us to the infamous slide 12 from that, sir?

24 MR. AUREL TESS (by Teams): It's the -
25 - it's the slide that refers to the export dependable

1 sales contracts, I believe, that we discussed -- we
2 touched on actually on Friday. And there it is, yeah.

3 So first of all, Mr. Williams, I just
4 wanted to point out that there is a fair amount of
5 uncertainty in our numbers when it comes to extra-
6 provincial revenue. And I think Mr. Gawne has -- has
7 testified to the -- the volatility that we face in
8 Manitoba Hydro with water levels.

9 This is a slide that shows our -- our
10 known, dependable contracts. One (1) thing to note
11 here is the Minnesota Power contract that ends --
12 sorry, the -- the Northern -- Northern Power contract,
13 Northern States Power contract that ends -- it's in
14 that blue block there. I believe it's '23/'24.

15 So that's a significant drop-off, but
16 you can see the -- the trend line on this graph that's
17 with our known dependable contracts going down into
18 the future.

19 So I just wanted to point that out that
20 -- the two (2) factors, uncertainty in water levels
21 and pricing volatility in the import and export market
22 -- and also what we're facing here with dependable
23 sales contracts on the decline.

24 DR. BYRON WILLIAMS: So, Mr. -- Mr.
25 Tess, just in terms of my question and trying to

1 understand the growth of some 300 million in projected
2 extra-provincial revenues between 2021 and '22/'23,
3 the sales to Saskatchewan Power and Wisconsin Public
4 Service are important parts of that growth.

5 Is that fair, sir?

6 MR. AUREL TESS (by Teams): Yes.

7 DR. BYRON WILLIAMS: And of course,
8 sir, with the surplus power as a result of Keeyask,
9 your team is out in the marketplace anxiously trying
10 to develop more dependable power sales, agreed?

11 MR. AUREL TESS (by Teams): We -- we
12 optimize our -- our energy sales. That's -- that's --
13 every electron is -- is optimized within our system.
14 That's a fair statement.

15 DR. BYRON WILLIAMS: Okay. Thank you.
16 I wonder if we can turn to Minimum Filing Requirement
17 6, page 2, which I believe is PDF page 119.

18

19 (BRIEF PAUSE)

20

21 DR. BYRON WILLIAMS: Mr. Tess, I want
22 to talk to you about net debt because I know that's
23 important to you.

24 And would it be accurate to say that
25 net debt is projected to be lower in '21/'22 and

1 '22/'23 than it was projected to be in the proceedings
2 leading to the 2017/'18 and 2018/'19 GRA?

3 MR. AUREL TESS (by Teams): Let me
4 check on that, please?

5 DR. BYRON WILLIAMS: Well, sir, I'll -
6 - I'll take you to it then if you -- oh, okay. You
7 check, and then I'll prove it.

8

9 (BRIEF PAUSE)

10

11 MR. AUREL TESS (by Teams): Okay. Go
12 ahead and take us to the exhibit, please.

13 DR. BYRON WILLIAMS: Well, let's stay
14 here for a minute, sir. If we're -- if we want to --
15 if we go up to the MFR-6 page 2 in the top right-hand
16 corner, if I see that modest formula 'F' minus 'G'
17 plus 'H' minus 'I'.

18 That's the formula the -- that the
19 Corporation uses to calculate net debt, agreed?

20 MR. AUREL TESS (by Teams): Yes.

21 DR. BYRON WILLIAMS: And -- and, as
22 colloquially as I can put it, you're taking your long-
23 term debt minus your sinking-fund investment, plus
24 your short-term debt and then subtracting your short-
25 term investments and getting your net debt, correct?

1 MR. AUREL TESS (by Teams): Yes.

2 DR. BYRON WILLIAMS: Okay. And if we
3 want to look at the forecast for the fiscal year
4 ending in '20 -- in '22, the net debt calculation for
5 that year, for the current, year would be long-term
6 debt of twenty-four billion four hundred and twenty-
7 eight million (24,428,000,000) minus short-term
8 investments of one billion one hundred and twenty-one
9 million (1,121,000,000), agreed, sir?

10 MR. AUREL TESS (by Teams): Yes.

11 DR. BYRON WILLIAMS: And if you want
12 to write that down and take it subject to check, I'll
13 suggest to you that is twenty-three billion three
14 hundred and seven million (23,307,000,000), sir.

15 Does that look about right math-wise?

16 MR. AUREL TESS (by Teams): Yes. Yes.

17 DR. BYRON WILLIAMS: And similarly,
18 using the same kind of approach, sir, for the fiscal
19 year ended in 2023, I'll suggest to you that long-term
20 debt minus the sinking-fund investment and minus the
21 short-term investments leaves a net debt in the range
22 of twenty-three billion five hundred and ninety-five
23 million (23,595,000,000).

24 Would you accept that, subject to
25 check, sir?

1 MR. AUREL TESS (by Teams): Yes.

2 DR. BYRON WILLIAMS: And I wonder then
3 if we can turn to Coalition Exhibit CC-4, tab 7. And,
4 sir, this is the famous Exhibit 93 from the -- from
5 the '17/'18, '18/'19 General Rate Application that you
6 discussed with Mr. Peters at length on Friday, sir.

7 Do you recognize it?

8 MR. AUREL TESS (by Teams): I do.

9 DR. BYRON WILLIAMS: Okay. And, sir,
10 if -- if we go down to the net debt under the year
11 ended 2022, you'll see that it is twenty-four million
12 four hundred (24,000,400) -- it's twenty-four billion
13 four hundred and twenty-four million (24,424,000,000),
14 agreed?

15 MR. AUREL TESS (by Teams): Yes.

16 DR. BYRON WILLIAMS: And so in terms
17 of the '21/'22 year, the forecast in -- back in
18 Exhibit 93 was that it would be -- net debt would be
19 over 24 billion.

20 Currently, Manitoba Hydro is -- is
21 projecting that it will be twenty (20) -- twenty-three
22 billion three hundred million (23,300,000,000),
23 agreed?

24 MR. AUREL TESS (by Teams): M-hm.

25

1 (BRIEF PAUSE)

2

3 MR. AUREL TESS (by Teams): Oh, maybe
4 you didn't hear my response. Sorry. Yeah, agreed.

5 DR. BYRON WILLIAMS: Oh, I didn't, Mr.
6 Tess.

7 MR. AUREL TESS (by Teams): Sorry.

8 DR. BYRON WILLIAMS: I apologize.

9 MR. AUREL TESS (by Teams): Sorry, I -
10 - no. Okay.

11 DR. BYRON WILLIAMS: You agreed?

12 MR. AUREL TESS (by Teams): Yes.

13 DR. BYRON WILLIAMS: Okay. And
14 usually, sir, I'm so keen to hear agreement. I
15 apologize for the -- for -- for that.

16 And then, sir, if we go over one (1)
17 year to the fiscal year ended '22/'23, you'll see back
18 in the Exhibit 93 time, the '17/'18, '18/'19 GRA,
19 Hydro was projecting net debt to be twenty-four
20 billion six hundred and sixty-six million
21 (24,666,000,000), sir, agreed?

22 MR. AUREL TESS (by Teams): Under this
23 scenario, yeah.

24 DR. BYRON WILLIAMS: And currently,
25 Manitoba Hydro is -- is -- in its '22/'23 preliminary

1 plan is suggesting that net debt will be twenty-three
2 billion five hundred and ninety-five million
3 (23,595,000,000), correct?

4 MR. AUREL TESS (by Teams): Yes.

5 DR. BYRON WILLIAMS: Over a billion
6 dollars lower, sir?

7 MR. AUREL TESS (by Teams): Yes.

8 DR. BYRON WILLIAMS: Okay.

9 MR. ALASTAIR FOGG (by Teams): Mr.
10 Williams, it's -- it's Mr. Fogg. Maybe just one (1)
11 thing I'd like -- I'd like to add, and I apologize, I
12 had my mask on for a second, is just when we talk
13 about '23 and the debt projection, it really is still
14 a projection.

15 And -- and should we encounter similar
16 adverse water conditions, that -- that amount could be
17 greater. So, I just -- I think it's important to
18 clarify that for the sake of the Board in -- in
19 understanding the value that we're talking about.

20 DR. BYRON WILLIAMS: Thank you, sir.
21 And there's, of course, always uncertainty in any
22 projection.

23 MR. ALASTAIR FOGG (by Teams):
24 Certainly. For sure. Thank you.

25 DR. BYRON WILLIAMS: Mr. Tess, just

1 while we're on Exhibit 93, I wonder if we can go back
2 a couple of pages to page 3 of 14, which is the
3 electric operations projected operating statement,
4 page 3 of 14.

5 And, Mr. Tess, I want to direct your
6 attention under net income to the net income
7 attributable to Manitoba Hydro, so just down a couple
8 more lines, Ms. Schubert. See that, Manitoba Hydro?
9 And -- and move across, if you would, Ms. Schubert, to
10 -- to the year ended 2023. Yes. Thank you.

11 And, Mr. Tess, you'll see then in
12 Exhibit -- Exhibit 93 that Manitoba Hydro was
13 projecting losses in the years '23 through '27. And
14 if we could go one (1) more year, Ms. Schubert, on to
15 the 2028 year, which should be on the next page.

16

17 (BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: Thank you. So,
20 Mr. Tess, I'm suggesting to you that in Exhibit 1993,
21 in terms of the electric operations projected
22 operating statement, at that point in time, Manitoba
23 Hydro was projecting six (6) years of losses from that
24 2023 through 2028 period.

25 Would you accept that subject to check,

1 sir? Actually, not subject to check; it's right there
2 in front of you.

3 MR. AUREL TESS (by Teams): Yeah. I
4 think I would like to -- to kind of take us back to
5 this -- this Application that we have in front of us
6 and what we do know.

7 This was a scenario that was developed
8 -- that was requested, actually, I believe, by the
9 MIPUG group. And we know that Bipole 3 and the major
10 capital projects will be fully amortized. The capital
11 accounts will be fully amortized.

12 We will no longer provide an asset to
13 that significant increase in revenue. And if we --
14 Ms. Schubert, if you could go back to figure 18 in our
15 Application, please?

16

17 (BRIEF PAUSE)

18

19 MR. AUREL TESS (by Teams): Yes,
20 that's good. Thank you. And so you can see, Mr.
21 Williams, in this figure the costs that arising here
22 from the major capital projects after amortization of
23 the reserves.

24 And you can see the three (3) years
25 listed there, 881 million in '23/'24; that's after the

1 amortization of the reserves. We will reach a
2 projected 964 million in '24/'25; that's a 57 percent
3 increase for '21/'22.

4 And, as I mentioned earlier already in
5 evidence, that the Northern States Power agreement
6 will expire in '24/'25. So, beyond dependable
7 exports, this will make up a smaller portion of our
8 extra-provincial revenue going forward. And this
9 means energy sales will be made in the opportunity
10 market.

11 And opportunity sales are subject to
12 spot market export prices; they're inherently
13 volatile, uncertain, and outside of Manitoba Hydro's
14 control, but will have less revenue certainty and cost
15 structure; that's largely fixed.

16 I believe this is more relevant than
17 looking at -- at Exhibit 93, which is not an official
18 forecast of Manitoba Hydro.

19 DR. BYRON WILLIAMS: And, of course,
20 sir, you'll recognize the challenges my clients and
21 our friends from the Manitoba Industrial Power Users
22 Group have in that we don't have any long-term
23 forecast out beyond the '22/'23 year.

24 You'll agree with that, sir?

25 MR. AUREL TESS (by Teams): The rate

1 Application that were -- were in front of you, I think
2 we went over this, as well, earlier in -- in the
3 presentation to AMC, but I will reiterate that -- the
4 reasons for the long-term forecast not being there.

5 And if we go to Ms. Grewal's testimony
6 --

7 DR. BYRON WILLIAMS: Sir, I'm going to
8 interrupt you because --

9 MR. AUREL TESS (by Teams): Yeah.
10 Yeah.

11 DR. BYRON WILLIAMS: -- we've heard
12 that speech. And what I'm suggesting to you is, if
13 you want to talk beyond '22/'23, bring it on. File a
14 proper forecast, and our clients are happy to look at
15 it.

16 But you can't cherry pick in terms of
17 certain events that may or may not happen without
18 sharing with our clients the long-term forecast, sir.

19 MR. AUREL TESS (by Teams): These are
20 known quantities though.

21 DR. BYRON WILLIAMS: Will you accept
22 that, sir?

23 MR. AUREL TESS (by Teams): I'll
24 accept that we have a known cost structure that is not
25 going to significantly change in the future. I will

1 accept that.

2 DR. BYRON WILLIAMS: Okay. Thank you.

3 MR. AUREL TESS (by Teams): It -- it's
4 increasing our risk going forward.

5 DR. BYRON WILLIAMS: And, sir, if I
6 could direct your attention to Coalition book --
7 Coalition Exhibit CC-4, tab 4. And, sir, what you'll
8 have before you here is a projection dating back to
9 the Need For and Alternatives hearing.

10 Do you understand that, sir?

11 MR. AUREL TESS (by Teams): Yes.

12 DR. BYRON WILLIAMS: And, sir, again,
13 if we devote our attention to the net income line,
14 recognizing that the timing of the projects was
15 considerably different back in 2014, you'll see that
16 Manitoba Hydro at that point in time was projecting
17 eight (8) years of -- of losses coinciding with the
18 onset of those major projects, agreed, sir?

19 MR. AUREL TESS (by Teams): Just one
20 (1) moment.

21

22 (BRIEF PAUSE)

23

24 MR. AUREL TESS (by Teams): So, Mr.
25 Williams, so, this projection was done for a different

1 purpose; it was not done for a rate setting proposal,
2 as I understand.

3 So, I think it's important to put that
4 in context, as well, so we -- you used the term
5 'cherry picking' earlier. I think this is similar to
6 that regard, if I can call you on that. I think this
7 is somewhat cherry picking information that was done
8 for just a different purpose, and I'm -- I'm failing
9 to see the --

10 DR. BYRON WILLIAMS: So, would you --

11 MR. AUREL TESS (by Teams): --
12 relevance of it to this application.

13 DR. BYRON WILLIAMS: Would you accept
14 that this was Manitoba Hydro's best estimate of -- of
15 what the financial future would look like assuming
16 Keeyask coming into effect as well as the -- the
17 Minnesota Power Sales?

18

19 (BRIEF PAUSE)

20

21 MR. AUREL TESS (by Teams): I would
22 not agree with that. I think we -- we -- at the time,
23 we were using all kinds of assumptions and trying to
24 gauge the risk.

25 But, again, just coming back to the

1 point that this -- this forecast was not developed for
2 the purpose of a rate application.

3 DR. BYRON WILLIAMS: Thank you for
4 that answer. This may go to your legal counsel,
5 Mr. Tess.

6 And I'll just indicate that I -- I
7 understand that there's an undertaking outstanding in
8 terms of a question from Mr. Peters in terms of the
9 net present value of the -- of the 5 percent rate
10 increase.

11 And so, I guess, what I'm -- I'm
12 telling the Board is that I have a couple of questions
13 about that. I'm -- I'm -- because that undertaking is
14 not available, I'm just requesting the right to -- if
15 it becomes available prior to closing argument, I'm
16 reserving the right to come back to that point.

17 Thank you, Mr. Chair.

18 THE CHAIRPERSON: That's fine, Mr.
19 Williams.

20 DR. BYRON WILLIAMS: Okay. Mr. Tess,
21 I wonder if I could ask --

22 MR. BRENT CZARNECKI (by Teams): Mr. -
23 - Mr. Williams -- Mr. Chairman, it's Brent Czarnecki
24 from Hydro. We do have that undertaking ready and Mr.
25 Tess could speak to it now if -- if that solves the

1 logistical issue. So that you have the information,
2 Mr. Williams, so we can carry on right away.

3 And he's willing to address that right
4 now, Mr. Chairman, if it helps.

5 THE CHAIRPERSON: Mr. Williams...?

6 DR. BYRON WILLIAMS: That's certainly
7 satisfactory. Mr. -- Mr. Chair, if it becomes
8 necessary to take a couple minutes afterwards just to
9 review it, I don't expect I'll need to, but I'd
10 appreciate having that opportunity.

11 THE CHAIRPERSON: A few minutes -- the
12 panel would be very happy to give you a few minutes.

13 DR. BYRON WILLIAMS: Okay.

14 MR. AUREL TESS (by Teams): So I'll
15 proceed to provide that response now, Mr. Chair?

16 THE CHAIRPERSON: Yes. I'm just
17 wondering what form it's in, Mr. Tess. Is it -- is it
18 a document you're going to put on the screen? Or is
19 it just oral information you're providing?

20 MR. AUREL TESS (by Teams): It's --
21 it's oral information. We can certainly undertake to
22 provide a hard copy or electronic copy as well to you.

23 THE CHAIRPERSON: Okay. Please
24 proceed.

25 MR. AUREL TESS (by Teams): Okay.

1 Thank you.

2 So the undertaking was from transcript
3 page 260. The question:

4 "What is -- what is the net present
5 value of the additional 1.5 percent
6 rate increase? And then, what is
7 the NPV of the proposed 5 percent
8 rate increase?"

9 So here are some important assumptions.
10 The 5.75 percent was used as our weighted average cost
11 to capital. And back in '18, it should be noted that
12 the WACC, or the Weighted Average Cost of Capital, as
13 we call it, was 6 percent.

14 So in our table, we have prepared the
15 table with \$88 million in annual revenue. And in the
16 past, we would have calculated the annual revenue
17 related to the rate increase using a long-term
18 electricity load forecast.

19 As the electricity load increases or
20 decreases, so would the additional annual revenues.
21 And currently, we don't have an approved long-term
22 electricity load forecast. As such, we made an
23 assumption and just assumed a flat 88 million per year
24 out to 2035/'36.

25 At 5 percent, the net present value

1 discounted under the assumptions I just indicated
2 would be 830 million.

3 And using the 1.5 percent, it's 249
4 million.

5

6 (BRIEF PAUSE)

7

8 DR. BYRON WILLIAMS: Mr. Chair, I'd
9 appreciate seeing that in -- in a written form. So
10 that -- if it's available.

11 MR. AUREL TESS (by Teams): Yes, we
12 can -- we can commit to that. Absolutely, Mr.
13 Williams.

14 THE CHAIRPERSON: Yeah, I'm trying to
15 think of the timing for it though.

16 DR. BYRON WILLIAMS: What I'd -- what
17 I'd suggest -- obviously, up to the Board -- if we got
18 it before lunch, we could probably -- if we need to
19 ask questions of clarification, do it just after
20 lunch.

21 THE CHAIRPERSON: Yeah. No, what
22 we'll do is we'll -- what we can do is, if you can
23 provide it to the Board, Mr. Tess, at or before the
24 lunch break. And then, maybe we'll add a short period
25 of time after the lunch break.

1 MR. AUREL TESS (by Teams):

2 Absolutely, Mr. Chair. We can undertake to do that.

3

4 --- UNDERTAKING NO. 1: Manitoba Hydro to produce
5 hard copy of Mr. Tess's
6 response

7

8 CONTINUED BY DR. BYRON WILLIAMS:

9 DR. BYRON WILLIAMS: Mr. Tess, thank
10 you for that undertaking. I'd ask you to turn to
11 Coalition MFR-22. And I believe it's the second page,
12 PDF 232.

13 And if could have one (1) moment, Mr.
14 Chair, please.

15

16 (BRIEF PAUSE)

17

18 DR. BYRON WILLIAMS: Mr. Tess, thank
19 you for your patience.

20 Without asking you to elaborate, in --
21 in this document, Manitoba Hydro is discussing its
22 activities in '21/'22 and 2022/'23 to respond to the
23 drought. Agreed?

24 MR. AUREL TESS (by Teams): In
25 relation to O&A primary, I believe. Yes.

1 DR. BYRON WILLIAMS: Thank you for
2 that.

3 And Ms. Schubert, if you could just
4 scroll a little bit more down the page, I want to
5 focus on the third paragraph.

6 And, Mr. Tess, you'll see, in the
7 paragraph beginning, "Uncontrollable", and then moving
8 to the second paragraph -- or the second sentence of
9 that paragraph, that Manitoba Hydro is talking about
10 the winding down of major capital projects and O&A
11 costs going up as there's a shift to a number of
12 activities, including operating activities in support
13 of Strategy 2040 and building up the capability to
14 meet the evolving energy landscape.

15 You see that, sir?

16 MR. AUREL TESS (by Teams): I do.

17 DR. BYRON WILLIAMS: And, sir, I want
18 to be careful here because, of course, you understand
19 that the Public Utilities Board has held that Strategy
20 2040 is not in scope for the Interim Rate Application.

21 You understand that, sir?

22 MR. AUREL TESS (by Teams): That's
23 correct.

24 DR. BYRON WILLIAMS: And, of course, a
25 Strategy 40 document has not been placed on the public

1 record, sir? That's agreed?

2 MR. AUREL TESS (by Teams): I agree.

3 DR. BYRON WILLIAMS: And we can agree,
4 sir, that in the context of rate setting, the
5 reasonableness and prudence of Strategy 2040
6 expenditures have not been reviewed by the Public
7 Utilities Board and will not be reviewed in the
8 context of an Interim Rate Application. Agreed?

9 MR. AUREL TESS (by Teams): Correct.

10 DR. BYRON WILLIAMS: But, sir, as your
11 Chief Executive Officer confirmed on Friday, Strategy
12 2040 has been approved by the Public Utilities Board -
13 - by the Hydro Board, excuse me?

14 MR. AUREL TESS (by Teams): That's
15 correct.

16 DR. BYRON WILLIAMS: And, sir, it
17 would be accurate to say that, embedded in the OM&A
18 clause for the 2022/'23 year, are operating activities
19 in support of Strategy 2040. Would that be accurate?

20 MR. AUREL TESS (by Teams): Yes.

21 DR. BYRON WILLIAMS: If we could
22 scroll to the top of the page, sir. And you'll see a
23 table that looks at -- at operating -- operating costs
24 over the period between five (5) -- between the
25 2016/'17 year and what Manitoba Hydro expects will be

1 OM&A costs for the '22/'23 year.

2 Do you see that, sir?

3 MR. AUREL TESS (by Teams): Yes. I
4 think in terms of -- of the -- the O&A growth, we did
5 present information -- I think it was in this MFR --
6 related to -- I'm sure it was in my presentation on
7 Friday -- related the growth of -- of O&A relative to
8 the Consumer Price Index tracking for this exact same
9 period. And we're exactly in alignment with that --
10 that level of growth.

11 DR. BYRON WILLIAMS: And, sir, I want
12 to focus on the 2019/'20 year. As we move to the
13 right, you'll see that OM&A costs are increasing by
14 about 22 million to the actual figures of 534 million
15 for '20/'21, agreed?

16 MR. AUREL TESS (by Teams): Yes.

17 DR. BYRON WILLIAMS: And if we go to
18 the '21/'22 forecast, we'll see OM&A costs rising by
19 23 million from the '20/'21 period, agreed?

20 MR. AUREL TESS (by Teams): Yes.

21 DR. BYRON WILLIAMS: And if we look at
22 the 2021/'22 forecast versus the 2022/'23 preliminary
23 plan, you'll see a projected growth of \$38 million,
24 sir?

25 MR. AUREL TESS (by Teams): Yes. Ms.

1 Schubert, could you possibly bring up my presentation
2 from -- from Friday?

3 So, starting with the -- I believe it's
4 slide 11 or 12, I believe, it's the rate Application
5 description.

6 Sorry, it's -- bear with me for a
7 moment, I'll just the exact slide number.

8 DR. BYRON WILLIAMS: Mr. Tess, does
9 this come off your time or my time?

10 MR. AUREL TESS (by Teams): I think
11 that's a question for the Chair, isn't it, Mr.
12 Williams?

13 DR. BYRON WILLIAMS: I'm just teasing
14 you, sir?

15 MR. AUREL TESS (by Teams): Okay, so
16 I'd like to go to slide 16 please.

17 So, here, Mr. Williams, you can see
18 that FTE's are at the lowest level in twenty (20)
19 years, and at the bottom of the graph there's
20 explanations for significant impacts that have
21 occurred during those years.

22 And you can see that the pandemic was a
23 low point, so forty-nine fifty-four, the post GDP a 15
24 percent reduction in FTE's post GDP and we intend to
25 keep that level going forward.

1 The -- as we consider this to be the
2 lowest level that we can operate to maintain
3 reliability of the system and also maintain a --
4 almost a doubling of the asset base to \$30 billion.

5 So, when you look at the increased
6 operating and -- and maintenance of the asset base as
7 it increases, growing customer base, resources are
8 required to implement -- to keep -- sorry, to -- to
9 care and -- and care and maintenance for those assets.

10 DR. BYRON WILLIAMS: Thank you for
11 that, sir.

12 MR. AUREL TESS (by Teams): Did that -
13 - does that help you --

14 DR. BYRON WILLIAMS: You've -- no --
15 you --

16 MR. AUREL TESS (by Teams): --
17 understand what --

18 DR. BYRON WILLIAMS: -- I've heard it
19 before, sir, so if we can go back to Coalition MFR-22.

20 And, sir, if we look at that -- I'll
21 suggest to you there's \$83 million in growth, in OM&A
22 expenditures between 2019/'20 and the '22/'23
23 preliminary plan. Will you accept that, sir?

24 MR. AUREL TESS (by Teams): Yes.

25 DR. BYRON WILLIAMS: And if we took

1 that \$83 million and divided it by the base from
2 2019/'20 of \$512 million, that would amount to 16.2
3 percent growth over that time period, sir? Agreed?

4 MR. AUREL TESS (by Teams): One
5 moment.

6 DR. BYRON WILLIAMS: \$83 million, sir,
7 divided by the five twelve.

8 MR. AUREL TESS (by Teams): Yeah.
9 That's correct. I do want to go back to the point
10 about the inflation rate. Like, I think you're
11 painting a picture here that's not quite accurate for
12 the panel.

13 The numbers are correct, I'm not
14 disagreeing on the numbers, but you have to look at
15 the full continuum of the OM&A growth over the
16 extended period.

17 DR. BYRON WILLIAMS: Thank you for
18 that, sir.

19 And, sir, if I could ask you, you've
20 got here your '21/'22 forecast, in terms of OM&A
21 expenditures.

22 And, would I be correct in suggesting
23 to you that that \$557 million figure did not change
24 from the '21/'22 budget? Do you understand my point,
25 sir?

1 MR. AUREL TESS (by Teams): Yeah, the
2 forecast is actually equal to the budget, currently,
3 yes.

4 DR. BYRON WILLIAMS: So,
5 notwithstanding the drought, it did not change one
6 iota. Agreed, sir?

7 MR. AUREL TESS (by Teams): The
8 components may have changed. I wouldn't say that's
9 completely accurate, but the number hasn't shifted,
10 that's correct.

11 DR. BYRON WILLIAMS: Okay, thank you.
12 Sir, you recall a discussion that your Chief Executive
13 Officer had on Friday, in terms of Capital Asset
14 Management and the Copperleaf C55 technology.

15 Do you -- do you recall that
16 conversation, sir?

17 MR. AUREL TESS (by Teams): Yes.

18 DR. BYRON WILLIAMS: And just to be
19 clear, Manitoba Hydro is not suggesting that knowledge
20 related to the Copperleaf technology was not before
21 the Public Utilities Board when it reviewed Capital
22 Asset Management during the proceedings relating to
23 the 2017/'18 and 2018/'19 GRA.

24 You're not suggesting the PUB didn't
25 have that Copperleaf information back -- way back

1 then, are you, sir?

2 MR. AUREL TESS (by Teams): I don't --
3 I don't believe there was any assertion to that -- to
4 that effect, Mr. Williams. And, as I recall, from Ms.
5 Grewal's testimony.

6 DR. BYRON WILLIAMS: And, sir, you're
7 aware that the Copperleaf C55 technology has, of
8 course, been used in generation since 2010? Agreed?
9 Subject to check?

10 MR. AUREL TESS (by Teams): Subject to
11 check, yeah.

12 DR. BYRON WILLIAMS: And, of course,
13 you'll agree, as well, that there was a major
14 announcement way back in 2016 that it was going to be
15 rolled out for transmission, customer service, distri
16 -- distribution and information technology. Agreed?

17 MR. AUREL TESS (by Teams): I did get
18 your document last night, yes, that referred to the
19 announcement?

20 DR. BYRON WILLIAMS: Thank you. Mr.
21 Tess, you're aware of the financial stresses that
22 consumers have been under since March of 2020,
23 coinciding with the COVID pandemic, sir?

24 MR. AUREL TESS (by Teams): Yes.

25 DR. BYRON WILLIAMS: And, for some of

1 those consumers and for many Manitobans, there has
2 been attendant economic uncertainty in these troubled
3 times? Agreed?

4 MR. AUREL TESS (by Teams): Agree.

5 DR. BYRON WILLIAMS: And, of course,
6 some Manitobans have lost their job as a direct
7 consequence of the pandemic. Agreed?

8 MR. AUREL TESS (by Teams): Agree.

9 DR. BYRON WILLIAMS: And you're also
10 aware, sir, of relatively high inflation, including
11 inflation as high as 4.7 percent in October of 2021,
12 at least at a general level, sir?

13 MR. AUREL TESS (by Teams): Agreed.

14 And also, the potential for rising interest rates,
15 which can create additional interest rate risk for
16 Manitoba, if you're looking at all the economic
17 indicators ---

18 DR. BYRON WILLIAMS: Yeah, and I thank
19 ---

20 MR. AUREL TESS (by Teams): --- that's
21 -- that's one of the primary ones that Manitoba Hydro
22 look -- looks at as well, and there was an
23 announcement by the Bank of Canada that interest rates
24 could be rising, as early as the second quarter in --
25 in fiscal '22.

1 DR. BYRON WILLIAMS: And, sir, you'll
2 agree that the impact of higher prices for goods and
3 services, due to inflation, and other factors may be
4 more difficult for lower income consumers or those
5 consumers with limited budgets to manage? Agreed?

6 MR. AUREL TESS (by Teams): Yes,
7 absolutely, that is one (1) of our considerations in
8 this rate application. Absolutely.

9 DR. BYRON WILLIAMS: Yeah.

10 MR. AUREL TESS (by Teams): It also is
11 a risk faced by Manitoba Hydro, and of course with the
12 supply chain and shortages and price of commodities
13 going up, that is something that is a risk for
14 Manitoba Hydro as well and our finances.

15 DR. BYRON WILLIAMS: And, sir, you'll
16 understand, whether its your budget, my budget, Ms.
17 Dilay's budget, in the face of increased cost,
18 consumers may be forced to look and -- and make hard
19 choices, in terms of -- in terms of their budgeting
20 decisions. You'll agree with that sir?

21 MR. AUREL TESS (by Teams): I would
22 agree with that.

23 DR. BYRON WILLIAMS: Sir, I want to
24 direct your attention to -- I'm going to ask Ms.
25 Schubert to pull up the trans -- a transcript from the

1 2014 Need for An Alternatives Proceeding.

2 And, Mr. Tess, for you and your lawyer
3 -- your legal counsel, excuse me, I'll notice that in
4 the Consumer Coalition Book of Documents, we included
5 pages 2822, 2834 and 2835. I apologize, we
6 inadvertently didn't include page 2833.

7 But, I wonder if we could -- I could
8 start and -- and roll -- direct your attention to line
9 20 on page 2833.

10 And for the panel, this would appear in
11 Tab 9 of the Consumer Coalition's Exhibit 4 and I'll
12 just put in the caveat that we inadvertently excluded
13 Page 2833.

14 Mr. Tess, just at a high level, you're
15 going to -- you'll see that this conversation is in
16 the context of Manitoba Hydro's response to a severe
17 drought. You see that on lines 20 to 21? This is Mr.
18 Schulz speaking. Do you see that, sir?

19 MR. AUREL TESS (by Teams): Yes.

20 DR. BYRON WILLIAMS: And, if we can go
21 to the top of Page 2834, beginning at -- at Line 3,
22 you'll see Mr. Schulz outlining, sir, three (3)
23 measures that would be undertaken in the context of a
24 drought. Would you agree with that, sir?

25 MR. AUREL TESS (by Teams): Yes.

1 DR. BYRON WILLIAMS: And, one of those
2 measures, at lines 5 through 7, is curtailing or derl
3 -- delaying operating and capital expenditures,
4 agreed?

5 MR. AUREL TESS (by Teams): Yes.

6 DR. BYRON WILLIAMS: And going down to
7 line 11, similar to the conversation that just you and
8 I had, Mr. Schulz, you will see, is drawing an analogy
9 to any homeowner in -- in tough times and the hard
10 choices that they have to make? Do you see that, sir?

11 MR. AUREL TESS (by Teams): Yes.

12 DR. BYRON WILLIAMS: And, beginning at
13 line 17, you'll see Mr. Schulz discussing another key
14 measure in terms of responding to a severe drought,
15 which is to draw on the \$500 million short-term
16 borrowing program. Agreed, sir?

17 MR. AUREL TESS (by Teams): Yes.

18 DR. BYRON WILLIAMS: And, sir, that's
19 the short-term borrowing program that -- that you and
20 I discussed earlier in our conversation. Correct?

21 MR. AUREL TESS (by Teams): It's the
22 same one, as far as I understand, yes.

23 DR. BYRON WILLIAMS: Yeah. The only
24 difference being that, now, the Hydro Act authorizes
25 up to 1.5 billion and you're just waiting for the --

1 the folks on Broadway to expand that authorization.

2 Agreed?

3 MR. AUREL TESS (by Teams): That's
4 correct.

5 DR. BYRON WILLIAMS: And -- and,
6 third, if we move down, you will see reference to rate
7 increases?

8 MR. AUREL TESS (by Teams): Yes.

9 DR. BYRON WILLIAMS: And, sir, just -
10 - if we think of in terms of what was contemplated in
11 the context of a severe drought in the -- during the
12 Need for an Alternatives Hearing, it was a mixture,
13 I'll suggest to you, of restrictions and cal -- and --
14 and expenditures, using bridge financing and rate
15 increases. Would that be fair, sir?

16 MR. AUREL TESS (by Teams): Yes.

17 MR. ALASTAIR FOGG (by Teams): Mr. --
18 Mr. Williams, it's Alastair Fogg. I wonder if we
19 could go back to Page 2833 of Mr. Schulz' transcripts,
20 just, I think there's a couple of important lines to
21 context what was being discussed at the time, and it's
22 closer to the bottom of --

23 MR. BYRON WILLIAMS: Yes, that's fine.

24 MR. ALASTAIR FOGG (by Teams): --
25 bottom of the page, sorry.

1 MR. BYRON WILLIAMS: Yeah. Yeah,
2 that's fine. Thank you.

3 MR. ALASTAIR FOGG (by Teams): Okay.
4 Thank you. Sorry, I believe it is close to the bottom
5 of the page.

6 So, I believe, starting at Line 20,
7 Mr. Schulz described that, during a period of a
8 drought, and, potentially, prolonged, or -- or --
9 which we -- we don't know if we will have one of those
10 or not at this point of time.

11 He talked about ensuring sufficient
12 cash flows for the continuity of business operations
13 and he does note here, he says, to quote him,

14 "I mean we're going to continue to
15 have business as usual for Manitoba
16 Hydro"

17 And I would suggest that that includes
18 work on our business operations capital to support --
19 or aging assets that are another significant risk that
20 we face.

21 The other thing I would note for the
22 Board's sake is he -- he also does make a comment here
23 that Manitoba Hydro's debt will, and I -- I apologize,
24 it goes in to the next page, will remain to be self-
25 supporting, and I think we've talked as well about our

1 current debt situation and ensuring that we have that
2 self-supporting aspects.

3 So, when we talk about the measures to
4 be undertaken, and he walks through them here, they're
5 certainly looking at -- at savings where possible and
6 if they're possible. There's the -- you mentioned the
7 bridge financing and I think what we've outlined here
8 is we've made a decision or there's -- we are taking
9 an impact to retained earnings. So, there is a loss.
10 So, that would be addressed through -- through longer-
11 term debt and -- and -- and, you know, that's --
12 that's in combination with thinking about longer-term
13 liquidity risk we may have and why you want to
14 maintain some flexibility in your short-term
15 borrowings as well.

16 And -- and then, as you -- you
17 mentioned, it goes to the last page, where
18 consideration of increasing cash flow or rate
19 increases is another component that would be
20 considered when addressing this risk.

21 DR. BYRON WILLIAMS: Thank you very
22 much for that.

23 MR. ALASTAIR FOGG (by Teams): Thank
24 you.

25 DR. BYRON WILLIAMS: Mr. Gawne, I have

1 totally neglected you today and I apologize for that.

2 I wonder if we can go to the Hydro
3 Application Figure 6 at PDF 20, please, and -- and,
4 sir, what this figure looks at is the variability and
5 rise in prices, including the MISO Manitoba Hydro
6 energy prices versus the Henry Hub Spot gas prices,
7 agreed?

8 MR. AUREL TESS (by Teams): Agreed.

9 DR. BYRON WILLIAMS: And, if some of
10 these should be going to you, Mr. Fogg, as well, I'm
11 not trying to exclude you. I am going to be coming to
12 hydrology in a second. So, between the two (2) of
13 you, you can help me with this and sir.

14 MR. ALASTAIR FOGG: Thank you,
15 Mr. Williams.

16 DR. BYRON WILLIAMS: When we look at
17 this table on the -- the blue reflects the -- the --
18 the price and the changes in the -- in terms of the
19 MISO Energy, as measured in -- in US dollars per
20 megawatt hour. Is that correct, sir?

21 MR. KEVIN GAWNE (by Teams): Yep,
22 that's correct, that MISO had occasional marginal
23 price set at the border with Manitoba.

24 DR. BYRON WILLIAMS: And, just like
25 Mr. -- Mr. Cormie, you're giving better answers than

1 my questions, and I appreciate that, sir, and, so, we
2 see a peak, it looks like in the February 2021 period,
3 in the range over in excess of \$70 US per megawatt
4 hour, agreed?

5 MR. KEVIN GAWNE (by Teams): Yeah, I
6 believe the chart -- it may not even capture the peak
7 that we experienced in those few days.

8 DR. BYRON WILLIAMS: Yeah.

9 MR. KEVIN GAWNE (by Teams): It was
10 during the Texas event and extreme cold weather across
11 North America.

12 DR. BYRON WILLIAMS: And, we also see,
13 in the June period, a peak in the range of \$60 US per
14 megawatt. Correct, sir?

15 MR. KEVIN GAWNE (by Teams): In June
16 of 2021, yes.

17 DR. BYRON WILLIAMS: Yeah, and, in
18 July of 21, again, we -- we see some fluctuations in
19 the range of \$50 US per megawatt. Agreed?

20 MR. KEVIN GAWNE (by Teams): Agreed.

21 MR. BYRON WILLIAMS: And, Mr. -- Mr. -
22 - and -- and, if I'm mispronouncing your name, you'll
23 correct me.

24 MR. KEVIN GAWNE (by Teams): It's
25 pronounced "gone".

1 DR. BYRON WILLIAMS: "Gone". I
2 apologize.

3 MR. KEVIN GAWNE (by Teams): Yeah.

4 DR. BYRON WILLIAMS: Mr. Gawne, I
5 apologize. Mr. Gawne, if we can go to PDF 15.

6 MR. KEVIN GAWNE (by Teams): PDF 15.

7 DR. BYRON WILLIAMS: Towar -- at the
8 bottom of this page -- yeah, towards the bottom of
9 this page.

10 In terms of Manitoba Hydro's reaction
11 to the lower water flow conditions and the lack of
12 precipitation, by mid-July, Manitoba Hydro was further
13 limiting Lake Winnipeg outflow -- outflow reductions
14 to near minimum. Is that correct, sir?

15 MR. KEVIN GAWNE (by Teams): Yes,
16 that's correct, sir. We were managing outflows from
17 Lake Winnipeg, recognizing that drought conditions
18 could potentially continue.

19 So, we needed to protect energy for
20 reliable operations and this was following an
21 extremely dry period in May, June, July, where we saw
22 record low precipitation in various locations in the
23 system, particularly in the Winnipeg River Basin,
24 which, as you know, is one (1) of our key basins in
25 the system, providing about 35 percent of the energy

1 to the Manitoba Hydro system.

2 And I should -- I should add that, you
3 know, there's been reference to the current situation,
4 the '21/'22 drought, as a temporary drought or a one
5 (1) year drought, and, you know, Figure 1 of our
6 submission -- and I would appreciate it if we could
7 just go to that just to help out the discussion here,
8 so Figure 1 of Manitoba Hydro's Application.

9

10 (BRIEF PAUSE)

11

12 MR. KEVIN GAWNE (by Teams): So, yeah,
13 this -- this chart illustrates the cumulative
14 precipitations since September of 2020, and we're
15 comparing it to normals for the whole system. We also
16 compare it to the 2002/'03 period which was the
17 beginning essentially of the '03/'04 drought.

18 You could see from the figure that June
19 and July -- if you basically take the difference of
20 June versus May, that's the accumulation in June, and
21 July versus June is the accumulation that occurred in
22 July of the red bars.

23 It was extremely dry. We had about 100
24 millimetres of rain on the system. Normally we
25 receive a hundred and seventy-five (175), and those

1 two (2) months are our highest yielding months.

2 So we -- we prepared our June 9th
3 submission to Manitoba -- or to the Public Utilities
4 Board based on conditions in May, and then we had a
5 couple of record months of -- of extremely dry
6 conditions.

7 The Winnipeg River basin recorded in
8 May to July the lowest recorded precipitation in the
9 southern portion of that basin since 1897 for that
10 record. That's 1897, so since the 19th century, you
11 know, in -- in Minnesota portion flowing into Lake of
12 the Woods.

13 So, yes, we experienced a severe dry
14 condition, and -- and I would say, back to the point
15 about a one (1) year drought or a temporary drought,
16 I'd ask that Ms. Schubert go to MIPUG-MH-1A, please.
17 MIPUG-MH-1A.

18

19 (BRIEF PAUSE)

20

21 MR. KEVIN GAWNE (by Teams): And then
22 chart -- if you scroll down a little bit, please. One
23 (1) more chart, Figure 2.

24 So in this chart you can see -- in the
25 main -- in the main application, we provide an

1 aggregate of what we call ener -- potential energy
2 from inflows. And this chart here is looking at just
3 the Winnipeg River basin, and essentially, it's taking
4 all those flow points in the system and factoring them
5 by how much generation we have downstream of those
6 locations and what we could potentially produce in our
7 system.

8 And clearly from the chart, you can see
9 in the 2020 period is when we started to see below
10 average flows in the Winnipeg basin, and that
11 continued through the last winter. And the conditions
12 took us -- further dived essentially in the June/July
13 time frame of 2021, and now we're heading into the
14 winter with pretty much the same lower decile flows in
15 that basis.

16 So, you know, we've framed next season
17 as, you know, equally probable transitioning to each
18 historic flow year based on the last forty (40) years
19 of record as being equally probable. But we're not
20 saying we're out of the drought and we're not saying
21 this is a temporary drought or forecasting that the
22 drought's over. That's certainly not the case.

23 And as we know, there is memory in the
24 basins and in the system, and we're starting from a
25 point that's, as you can see in front of you here, in

1 our highest yielding basin, a lower decile condition.

2 So, you know, maybe we haven't done
3 ourselves any favours by suggesting that it's an equal
4 -- equally probable transition to any of the forty
5 (40) recent years in 2022/'23, but there is strong
6 correlation.

7 We can go back as far as -- we don't
8 have to go there, but in 2011 when we had ICF come in
9 and discuss drought risk, indicating that there's a
10 strong correlation year to year and it's -- it's worth
11 -- it's important to consider that.

12 And I would just -- just one (1) more
13 statement. Sorry, Mr. Williams. I'm just trying to
14 help the Board understand the significance of this
15 drought.

16 If we -- if we go back to MH Exhibit 55
17 from the 2010/2011 GRA where Judah Rose from ICF said
18 -- and I'll quote:

19 "However, once in a drought,
20 additional precaution is warranted
21 given the serial correlation
22 issues."

23 And he goes on to say:

24 "This is because there is a larger
25 probability of additional years of

1 low-water conditions, and that is,
2 there is a serial correlation. The
3 probability of a drought is higher
4 if the prior year has a strong
5 drought."

6 So I -- I just wanted to address the --
7 the narrative that maybe we're in a one (1) year
8 drought here, or it's a temporary drought, and we
9 should just look at the average revenues for '22/'23.
10 I think the Board -- or I think we all need to look at
11 the range of potential revenues for '22/'23 and -- and
12 recognize that we're -- we're starting from an
13 unfavourable position of continued dry conditions.

14 DR. BYRON WILLIAMS: We'll come back
15 to that point in just one (1) second.

16 If I could go back to PDF page 15.
17 Sir, in addition to implementing Lake Winnipeg outflow
18 reductions, you are also reducing Grand Rapids outflow
19 reductions to the near minimum possible by -- by the
20 end of July 2021.

21 We can do on to the next page, Ms.
22 Schubert. Is that correct, sir?

23 MR. KEVIN GAWNE (by Teams): That's
24 correct. We essentially went down to almost zero at
25 Grand Rapids for an extended period.

1 DR. BYRON WILLIAMS: And so -- and so
2 by this time, Manitoba Hydro was -- was starting to
3 bring in higher-than-budgeted imports starting in July
4 of 2021, agreed?

5 MR. KEVIN GAWNE (by Teams): No, I --
6 I don't agree with that, Mr. Williams. We were --

7 DR. BYRON WILLIAMS: Does it --

8 MR. KEVIN GAWNE (by Teams): -- we
9 were importing --

10 DR. BYRON WILLIAMS: -- so just --

11 MR. KEVIN GAWNE (by Teams): -- we
12 were importing more power than budgeted right from the
13 beginning of the fiscal year.

14 DR. BYRON WILLIAMS: Okay. And so
15 when we see the statement on the first paragraph with
16 these flow reductions, higher-than-budgeted imports
17 were required starting in July.

18 What you're telling me, Mr. Gawne --
19 hopefully I've said that right this time -- is that
20 those higher-than-budget imports were actually
21 required prior to that.

22 Is that what you're telling me, sir?

23 MR. KEVIN GAWNE (by Teams): This --
24 the -- I guess the -- the significance of the
25 deviation of imports really started in July.

1 DR. BYRON WILLIAMS: Okay. Thank you.

2 MR. KEVIN GAWNE (by Teams): But we
3 were -- you know, we were recognizing that the
4 conditions were dry through the winter, right? We had
5 a very low snow pack through the winter, and so we
6 started to see net -- net export volumes under budget
7 beginning in April.

8 But with -- with -- I guess with -- you
9 know, the -- the intensity of that activity certainly
10 stepped up in July after we came through those few
11 months where we normally get our most rain and it
12 didn't happen. So we made some pretty heavy
13 reductions in the July time frame.

14 DR. BYRON WILLIAMS: Thank you. And,
15 Mr. Fogg, recognizing that my time is short, in terms
16 of the hedging activities that you have undertaken in
17 the '21/'22 years, did any of those hedging activities
18 commence in the July/August period of 2021?

19 I'm not looking for any confidential
20 information in terms of numbers, sir, but I'm just
21 trying to get a sense of when you started hedging.

22 MR. ALASTAIR FOGG (by Teams): So, Mr.
23 Williams, it would have started approximately in that
24 time frame. And -- and as I discussed with -- with
25 AMC, we took a balanced approach, recognizing that in

1 other years -- 2018 and 2019, I believe in both years
2 we saw significant water recoveries in the
3 September/October time frame.

4 So while we did undertake hedges
5 roughly in the time frame you -- you asked about, we
6 were also cognizant that, in other years, we had
7 significant rain events in the fall that then,
8 essentially, turned the situation around. So there
9 was a balancing of those factors.

10 DR. BYRON WILLIAMS: Ms. Gregorashuk,
11 I'm -- I'm not going to have the time to ask you the
12 questions I would have -- would have liked.

13 But lest you feel too neglected, in
14 terms of the most recent cost-of-service study, that
15 will not make provision for the -- that -- that
16 doesn't account for the last two (2) turbines
17 associated with Keeyask.

18 Would that be accurate?

19 MS. SHANNON GREGORASHUK (by Teams):
20 Correct. The PCOS 21 that we filed as part of this
21 application is based on the 2021 approved budget, and
22 that has five (5) of the seven (7) units of Keeyask in
23 it.

24 DR. BYRON WILLIAMS: And so
25 directionally, bringing on line two (2) additional

1 units of Keeyask, can we expect that to have some
2 impact on the relative proportion of costs allocated
3 to generation?

4 MS. SHANNON GREGORASHUK (by Teams): I
5 think -- I think we will continue to see the same
6 directional impacts that we have from when we filed
7 the PCOS-18 in our 2017 GRA, as well as subsequent
8 scenarios.

9 As Keeyask comes on service, we're
10 going to see the revenue cost coverage ratios of those
11 customer classes that have a higher portion of their
12 allocated costs assigned to generation will come down,
13 and the opposite will happen with those customer
14 classes where generation is a smaller portion of their
15 allocated costs.

16 DR. BYRON WILLIAMS: Thank you for
17 that. And -- thank you for that. I think I'll
18 finish, lest I be chastised by my clients, with Mr.
19 Tess.

20 And, Mr. Tess, at a high level, you
21 followed the dialogue between Manitoba Hydro and
22 stakeholders, such as the Consumers' Coalition and the
23 Manitoba Industrial Power Users Group, through the
24 debate over whether there should be a status update
25 process.

1 Do you recall that dialogue, sir?

2 MR. AUREL TESS (by Teams): I do.

3 DR. BYRON WILLIAMS: And, sir,
4 recognizing that my time is short and -- you'll --
5 you'll recall that there was a conversation with
6 certain stakeholders expressing a lack of confidence
7 in the transparency of the rate setting process.

8 You'll recall that, sir?

9 MR. AUREL TESS (by Teams): Yes.

10 DR. BYRON WILLIAMS: Would it be fair
11 to say that neither you or any member of your
12 executive have to date sought to engage with
13 organizations such as Harvest Manitoba, CAC
14 (Manitoba), or the Aboriginal Council of Winnipeg in
15 terms of their express lack of confidence in Hydro's
16 approach to rate setting?

17 MR. AUREL TESS (by Teams): Just one
18 moment, please.

19

20 (BRIEF PAUSE)

21

22 MR. AUREL TESS (by Teams): I -- I'm
23 not aware of that type of consultation. There --
24 there may have been consultation. I think, as Ms.
25 Grewal put it, there was lots of pre-consultation work

1 done prior to Strategy 2040 being approved by the
2 Board.

3 So, that was -- it -- it could have
4 been something that happened during that process.

5 DR. BYRON WILLIAMS: And, sir, you --
6 it would be fair to say that Manitoba Hydro following
7 this process is intending to engage in a discussion
8 with the Public Utilities Board on the timing and
9 parameters of its next multi year General Rate
10 Application.

11 That's your understanding, sir?

12 MR. AUREL TESS (by Teams): That was
13 what we presented, I believe, on Friday. That was the
14 --

15 DR. BYRON WILLIAMS: Okay.

16 MR. AUREL TESS (by Teams): -- the
17 position that we're taking, yes.

18 DR. BYRON WILLIAMS: And would it be
19 fair to say that neither you or any member of your
20 executive have sought to engage with organizations
21 such as Harvest Manitoba, CAC (Manitoba), or the
22 Aboriginal Council of Winnipeg in terms of the
23 appropriate level of the interim rate application or
24 the timing and parameters of your next multi-year
25 General Rate Application?

1 MR. AUREL TESS (by Teams): Just one
2 (1) moment, please, Mr. Williams.

3

4 (BRIEF PAUSE)

5

6 MR. AUREL TESS (by Teams): Okay, Mr.
7 Williams, I -- I think, as you can appreciate, we've
8 been very busy putting together the application.
9 There was a very short turnaround time that -- you
10 know, that we had in terms of preparing this.

11 We did, however -- I think I've
12 mentioned that our executive have -- was fully engaged
13 in reviewing our -- our application and, also, our
14 rationale.

15 And we -- we did consult with our
16 customer solutions and experience group, one (1) of
17 our VPs that may or may not have had that type of
18 engagement with the customers. I'm not -- I'm not
19 privy to it exactly.

20 But I think that's something that we
21 certainly value, is engagement with our customers, and
22 I think you'll see that front and centre in Strategy
23 2040. Customer centricity is one (1) of our main
24 pillars in Strategy 2040.

25 DR. BYRON WILLIAMS: Mr. Tess, thank

1 you for that. And -- and consider yourself and other
2 members of your executive invited through this
3 conversation to chat with our clients.

4 MR. AUREL TESS (by Teams): Absolutely
5 --

6 DR. BYRON WILLIAMS: Mr. Gawne, I have
7 one (1) last question for you.

8 And -- and in terms of Manitoba Hydro's
9 forecast for the 2022/'23 year, would it be fair to
10 suggest that you are assuming a lower reservoir level
11 going into the '22/'23 year, sir?

12 MR. KEVIN GAWNE (by Teams): Yes,
13 that's correct.

14 DR. BYRON WILLIAMS: That is built
15 into your projections for that year. And if memory
16 serves me right, is at a 20 percent lower reservoir
17 level?

18 MR. KEVIN GAWNE (by Teams): Subject
19 to check, I believe it's 20 percent below --

20 DR. BYRON WILLIAMS: Okay.

21 MR. KEVIN GAWNE (by Teams): -- below
22 average, yeah.

23 DR. BYRON WILLIAMS: Mr. Chair, thank
24 you for that. And recognizing that we may have one
25 (1) review of that undertaking --

1 MR. KEVIN GAWNE (by Teams): Mr. --
2 Mr. -- oh, I'm sorry.

3 THE CHAIRPERSON: Mr. Gawne, go
4 ahead.

5 DR. BYRON WILLIAMS: Sorry, Mr. Gawne.

6 MR. KEVIN GAWNE (by Teams): Yeah,
7 just to -- just to add to that point about reservoir
8 storage. So, the -- the spring storage that we are
9 planning for is to protect our operation through a
10 severe drought if that continues in -- in '22/'23.

11 So, it's a -- it's a minimum level that
12 we -- we see as necessary to sustain our operation
13 through that '22/'23 period should we experience that
14 most severe drought on record.

15 DR. BYRON WILLIAMS: I'm not
16 condemning you, sir. I'm just trying to get the
17 facts.

18 MR. KEVIN GAWNE (by Teams): Yeah.

19 DR. BYRON WILLIAMS: Thank you.

20 THE CHAIRPERSON: Mr. Williams, I have
21 a question for you, which is: Are you staying here
22 over -- I'm trying to figure out how to get the
23 information to you that Manitoba Hydro's providing.

24 Are -- are you remaining here? Are you
25 going back to your office?

1 DR. BYRON WILLIAMS: I'm -- whatever
2 works best, Mr. Chair. Like, we can stay here, yeah.

3 THE CHAIRPERSON: Well, I was going to
4 say to Manitoba Hydro, if they're staying here, if you
5 could simply send the document to Ms. Schubert. And
6 then Ms. Schubert can make copies for the panel and
7 for -- for Mr. Williams.

8 You could send it over the lunch hour.
9 And then we'll resume at one o'clock. And then if you
10 need a few minutes, Mr. -- Mr. Williams, we'll deal
11 with it at that time.

12 DR. BYRON WILLIAMS: And I didn't
13 express my appreciation either to legal counsel, to
14 Manitoba Hydro, or the witnesses. So, certainly, we
15 appreciate their -- their collegiality this morning.
16 Thank you.

17 THE CHAIRPERSON: Thank you. Thank
18 you, all. We'll -- we'll adjourn and resume at one
19 o'clock. Thank you.

20 MR. AUREL TESS (by Teams): Thank you.

21

22 --- Upon recessing at 12:03 p.m.

23 --- Upon resuming at 1:02 p.m.

24

25 THE CHAIRPERSON: Sorry. We'll

1 resume. Mr. Williams, if you have a few questions on
2 -- on the document that was provided by Hydro over the
3 lunch.

4 DR. BYRON WILLIAMS: Yes, probably
5 about six (6), Mr. Chair.

6

7 CONTINUED BY DR. BYRON WILLIAMS:

8 DR. BYRON WILLIAMS: To Manitoba
9 Hydro, in terms of Undertaking number 2, (sic) can you
10 confirm that the calculation of present value only
11 moves out in time fourteen (14) years?

12

13 (BRIEF PAUSE)

14

15 MR. AUREL TESS (by Teams): Just one
16 (1) moment, Mr. Williams.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Yes, I can
21 confirm that, Mr. Williams.

22

23 DR. BYRON WILLIAMS: Yes. And you'd
24 agree that the 5 percent rate increase is not intended
25 to be withdrawn after fourteen (14) years, agreed?

25

MR. AUREL TESS (by Teams): Agreed.

1 DR. BYRON WILLIAMS: And you'd agree
2 that if the present value was extended for another
3 fifteen (15) years -- sorry, if the calculation was
4 extended for another fifteen (15) years, the present
5 value would be more than twice as much, correct?

6 MR. AUREL TESS (by Teams): One (1)
7 moment.

8

9 (BRIEF PAUSE)

10

11 MR. AUREL TESS (by Teams): Mr.
12 Williams, that would be subject to check. We can
13 check that for you.

14 DR. BYRON WILLIAMS: Yeah. Okay. And
15 then finally, I'd like you turn to the -- the present
16 value calculation at tab 6 of the Consumers Coalition
17 Exhibit CC-4, which is an excerpt from Coalition MH-1-
18 5 from the 2019/'20 application, and page 1 of 3.

19 MR. AUREL TESS (by Teams): M-hm.

20 DR. BYRON WILLIAMS: And you'll see
21 that, in this response, the net present value of a 3.5
22 percent rate increase was assuming that it continued
23 in perpetuity, agreed?

24 MR. AUREL TESS (by Teams): Just one
25 (1) sec.

1 (BRIEF PAUSE)

2

3 MR. AUREL TESS (by Teams): Yes,
4 that's a correct assumption, Mr. Williams.

5 DR. BYRON WILLIAMS: Yes. And the
6 result was a calculation of -- of a 3.5 percent rate
7 increase somewhere in the range between 1.3 billion
8 and 1.457 billion, agreed?

9 MR. AUREL TESS (by Teams): Agreed.

10 DR. BYRON WILLIAMS: And if we did the
11 simple mathematical exercise -- let's take 1.4 billion
12 and divide that by 3.5 percent -- that would suggest
13 that if the calculation was done into perpetuity, it
14 would be in the range of 400 million per 1 percent
15 rate increase, agreed?

16 MR. AUREL TESS (by Teams): One (1)
17 moment, please.

18

19 (BRIEF PAUSE)

20

21 MR. AUREL TESS (by Teams): Subject to
22 check.

23 DR. BYRON WILLIAMS: Okay. Thank you.
24 I have no further questions.

25 THE CHAIRPERSON: Thank you. I'm just

1 wondering, do we have these marked as an exhibit?

2 DR. BYRON WILLIAMS: I think we -- it
3 was entered as an exhibit, CC-4, and then I think the
4 -- it was subject to My Learned's Friend's note that
5 it -- the actual elements of the exhibit would only be
6 the -- the responses that were referred to in our
7 conversation.

8 I could -- we could go through the
9 transcript and -- and clarify which ones those were.
10 That -- that was --

11 THE CHAIRPERSON: I was just wondering
12 if their responses on the MPV --

13 DR. BYRON WILLIAMS: Oh.

14 THE CHAIRPERSON: -- these documents--

15 DR. BYRON WILLIAMS: My apologies.

16 THE CHAIRPERSON: I was just wondering
17 if these documents should be entered in as an exhibit.

18 MR. BRENT CZARNECKI (by Teams): Mr.
19 Chairman, it's Mr. Brent Czarnecki talking. Yes, we
20 would like them to be marked, and I -- I think I have
21 the numbers.

22 Undertaking 1 would be Exhibit 6, two
23 (2) would be seven (7) --

24 THE CHAIRPERSON: Yeah.

25 MR. BRENT CZARNECKI (by Teams): --

1 three (3) would be eight (8), four (4) would be nine
2 (9). And we also filed the affidavit of the public
3 notice. I would request that that be number ten (10).

4 THE CHAIRPERSON: Do we -- Kristen, do
5 we have the public notice? Okay. Okay. Thank you.
6 Thank you, Mr. Czarnecki.

7 MR. BRENT CZARNECKI (by Teams): Thank
8 you, Chair.

9

10 --- EXHIBIT NO. MH-6: MH responses to
11 Undertaking 1, December
12 13, 2021

13

14 --- EXHIBIT NO. MH-7: MH responses to
15 Undertaking 2, December
16 13, 2021

17

18 --- EXHIBIT NO. MH-8: MH responses to
19 Undertaking 3, December
20 13, 2021

21

22 --- EXHIBIT NO. MH-9: MH responses to
23 Undertaking 4, December
24 13, 2021

25

1 --- EXHIBIT NO. MH-10: MH Affidavit of service
2 and publication, December
3 13, 2021
4

5 THE CHAIRPERSON: Mr. Williams...?

6 DR. BYRON WILLIAMS: I'm -- I'm
7 planning to be excused, if that's --

8 THE CHAIRPERSON: Yes. Certainly.
9 Mr. Hacault...?
10

11 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

12 MR. ANTOINE HACAULT: Yes. Good
13 afternoon, members of the Panel. Good -- good
14 afternoon, Mr. Tess. I'm not seeing anybody, so
15 that'll be okay.

16 I'll be addressing questions to the
17 panel generally. If somebody feels better placed to
18 answer them, by all means feel free to answer them.
19 But if you could please answer the questions and not
20 repeat previous answers, that would be appreciated
21 because we all have limited time to pose our
22 questions.

23 With that, I had distributed a document
24 earlier this morning which was a compilation of
25 various integrated financial forecasts. It was my --

1 entitled 'MIPUG Net Loss.pdf'. I'm proposing to have
2 that marked as MIPUG Exhibit 6.

3

4 --- EXHIBIT NO. MIPUG-6: MIPUG new losses Small,
5 December 13, 2021

6

7 CONTINUED BY MR. ANTOINE HACAULT:

8 MR. ANTOINE HACAULT: And I would now
9 start some questioning based on that document.

10 Could you confirm that, in these
11 integrated financial forecasts losses were always
12 expected at average water when Keeyask came into
13 service?

14 MR. AUREL TESS (by Teams): One (1)
15 moment.

16

17 (BRIEF PAUSE)

18

19 MR. AUREL TESS (by Teams): So, the --
20 the first one is -- I believe it's marked the NFAT
21 base case plan. So, that was -- that was a scenario,
22 not an approved forecast but for the purpose of rate
23 determination.

24 And the other thing to keep in mind is
25 these years are not -- are not -- were not part of the

1 test years in terms of the -- the applications that
2 were in front of the -- the Public Utilities Board.

3 MR. ANTOINE HACAULT: So, is your
4 answer confirming my question, that losses under these
5 scenarios are always expected at average water to have
6 losses when Keeyask came into service?

7 Would you respond to that question,
8 please?

9 MR. AUREL TESS (by Teams): So, just
10 to -- just to verify, you're saying the assumptions
11 behind here were always average water.

12 Is that what you're asking?

13 MR. ANTOINE HACAULT: My question,
14 I'll repeat it again if the question wasn't clear.

15 Could you please confirm that losses
16 were always expected at average water when Keeyask
17 came into service?

18

19 (BRIEF PAUSE)

20

21 MR. AUREL TESS (by Teams): So, we
22 were seeing these losses as part of the NFAT process,
23 but we weren't addressing them from a rate perspective
24 at the time. I just want to emphasize that.

25 And in answer to your question about

1 water, we -- we did use the average water methodology
2 at the time.

3 MR. ANTOINE HACAULT: And that applies
4 for each of the scenarios put on the cover page, the
5 NFAT base case, the MH-13, the MH-14, the MH-15, and
6 the IFF-16 interim, correct?

7 MR. AUREL TESS (by Teams): That's
8 correct. All --

9 MR. ANTOINE HACAULT: Okay. Thank
10 you.

11 MR. KEVIN GAWNE (by Teams): Sorry,
12 this is Kevin Gawne. Just to -- just to clarify, this
13 would be the average revenues and costs from the range
14 of water conditions, not necessarily a single average
15 water. Thanks.

16 MR. ANTOINE HACAULT: Thank you for
17 that clarification.

18 Now, if we look at the NFAT base case,
19 which was Manitoba Hydro's base case, and try to
20 convince the PUB to allow that project to go forward,
21 if we go to the next page, you'll see that this
22 scenario, it was K-19, which was Keeyask coming into
23 service in 2019.

24 Would you be aware of that?

25 MR. AUREL TESS (by Teams): Yes. At a

1 high level, yes.

2 MR. ANTOINE HACAULT: Okay. And if we
3 go back to the first page, we'll see under that first
4 line, under the year 2019, that the expected loss for
5 the first year of service -- in service of Keeyask was
6 at a minus 155 million.

7 Am I reading that table correctly?

8 MR. AUREL TESS (by Teams): Sorry,
9 which fiscal year, Mr. Hacault, are you referring to?

10 MR. ANTOINE HACAULT: Ending in 2019
11 on the NFAT base case put forward by Manitoba Hydro.

12 MR. AUREL TESS (by Teams): That's
13 correct. And I -- I believe that in each of these
14 forecasts there was an assumption of -- of rate
15 increases, as well, each and every year.

16 MR. ANTOINE HACAULT: That's correct.
17 There were a number of assumptions.

18 MR. AUREL TESS (by Teams): Yeah.

19 MR. ANTOINE HACAULT: Mr. Williams, in
20 his cross-examination, referred you to MH-93. And you
21 referenced this as a MIPUG scenario and not being the
22 Manitoba Hydro forecast document.

23 Ms. Schubert, could you bring up CAC
24 Exhibit 4 at page 25, please? I'll read into the
25 record the two (2) paragraphs from Board Order 59/'18

1 at page 173.

2 "The integrated financial forecast
3 filed in the proceeding as Manitoba
4 Hydro Exhibit 93 supports the
5 Board's decision on the level of the
6 overall rate increase.

7 This financial scenario included:
8 continued deferral of 20 million in
9 -- in eligible overhead, amortized
10 at a thirty (30) year rate; average
11 service/depreciation methodology,
12 without amortization of the
13 difference with the equal life group
14 methodology; achievement of a 25
15 percent equity level over a long
16 period of time, specifically by
17 2035/'26 and debt manage based on a
18 weighted average term to maturity of
19 twelve (12) years.

20 In many respects, and as a
21 departure, Manitoba Hydro's plan and
22 integrated financial forecast
23 assumptions, Manitoba Hydro Exhibit
24 93 is therefore reflected --
25 reflective of many of the Board's

1 decisions in this Order.

2 Beginning in the test year, the
3 Manitoba Hydro Exhibit 93 integrated
4 financial forecast scenario results
5 in equal annual rate increases of
6 3.57 percent.

7 The Board finds that with minor
8 adjustments, this scenario is direct
9 -- directionally consistent with the
10 Board's decisions in this Order."

11 First, did I read that correctly?

12 MR. AUREL TESS (by Teams): Yeah.

13 MR. ANTOINE HACAULT: Okay. And, sir,
14 would you be aware that Manitoba Hydro advocated for
15 the construction of Keeyask and related infrastructure
16 and NFAT and advocated that the proposed path of
17 consecutive losses shouldn't be a concern?

18 MR. AUREL TESS (by Teams): One (1)
19 moment, please.

20

21 (BRIEF PAUSE)

22

23 MR. AUREL TESS (by Teams): So, I can
24 confirm that Manitoba Hydro's was advocating for the
25 project plan for Keeyask. I think the way you're

1 framing it, it -- it almost implies that we weren't
2 concerned about the level of losses.

3 But when we look at what we know now,
4 if we look at this Application, not what was stated in
5 the NFAT some time ago, we know that we are projecting
6 200 million of net income in '22/'23. This is a
7 result of a 127 million of non-cash amortization of
8 the Bipole 3 and major capital referral.

9 And the additional revenue with 5
10 percent gives us an additional 88 million. And we
11 would be projecting a net loss in '22/'23 with a
12 requirement to borrow in '22/'23 without that
13 increase.

14 And we know that Bipole 3 and the major
15 capital deferral accounts would be fully amortized, no
16 longer provide that offset to significant increase in
17 revenue.

18 Figure 18 in our Application, again,
19 speaks to this, and the costs will reach 881 million
20 in '23/'24, 964 million in '24/'25, which is a 57
21 percent increase over '21/'22.

22 We know that an export sales agreement
23 with Northern States Power will expire in '24/'25.
24 And then beyond --

25 MR. ANTOINE HACAULT: Sir, I'm going

1 to interrupt you. This is --

2 MR. AUREL TESS (by Teams): Yeah.

3 MR. ANTOINE HACAULT: Repeating the
4 same advocacy and argument that you've done on a
5 number of occasions. I understand your position on
6 that, but I don't need to be reminded for a third or
7 fourth time of that position.

8 If you could answer the question, that
9 would be appreciated.

10 MR. AUREL TESS (by Teams): Well, I
11 believe I did answer the question. I was providing
12 additional context for the -- for the Board and going
13 back to, essentially, what's in the Application that -
14 - and the reasons for the Application.

15 MR. ANTOINE HACAULT: Sir, are you
16 aware that Manitoba Hydro advocated that, even with
17 these consecutive projected losses upon Keeyask
18 becoming in service, that the debt and the
19 corresponding interest was a sustainable matter under
20 the various scenarios, including drought scenarios?

21 MR. AUREL TESS (by Teams): One
22 moment, please.

23

24 (BRIEF PAUSE)

25

1 MR. AUREL TESS (by Teams): So, Mr.
2 Hacault, given this wasn't a rate scenario, can you --
3 can you provide a reference to what you're -- where
4 you're getting the information from that you're
5 putting on the record, please?

6 MR. ANTOINE HACAULT: Okay. Well, if
7 you aren't aware of it, sir, that's okay. There --
8 there are Board Orders with -- and analysis in the
9 NFAT decision, which is a public record.

10 So I'll move on if you aren't aware.
11 It's fair that you wouldn't be aware, sir, because
12 you've only been employed since January of 2020. So
13 I'll move on.

14 Going back to MIPUG-6 on the first
15 page, we see, under 2022 -- and it's in your
16 materials, I believe, sir, with the projected loss --
17 and this is in highlight at the bottom -- of 190
18 million. The equity ratio would be approximately 13
19 percent. Do I have that right?

20 MR. AUREL TESS (by Teams): That's
21 what the report says, yes.

22 MR. ANTOINE HACAULT: And if we go up
23 to the NFAT scenario, which was the base case for
24 Manitoba Hydro to convince this Board to allow that
25 project to go ahead, the equity ratio wasn't as

1 favourable, correct?

2 MR. AUREL TESS (by Teams): I don't
3 think you can refer to it as the base case. It's --
4 it's information that was provided as part of that
5 review of alternatives. I can agree to that.

6 MR. ANTOINE HACAULT: Well, the NFAT
7 decision will speak to itself as to which base case
8 Manitoba Hydro was putting to the Board at that time.

9 But you'll agree with me that the debt-
10 to-equity ratio wasn't as favourable as where we're at
11 for 2022 with -- even with the \$190 million loss,
12 correct?

13 MR. AUREL TESS (by Teams): Well, I'm
14 seeing 12 percent equity percentage, equity ratio. If
15 I'm -- is it possible to make it a bit bigger, please?
16 Thank you.

17 So in '23, the equity ratio is at 12
18 percent. So if you're asking whether or not 12
19 percent was in the forecast or you're asking -- are
20 you asking whether or not it's better than what we are
21 at right now?

22 MR. ANTOINE HACAULT: My question,
23 sir, preceded with a couple steps. Firstly, when
24 Keeyask was in service and the evidence is established
25 that we have got five (5) of the seven (7) units of

1 Keeyask in service to date, correct?

2 MR. AUREL TESS (by Teams): That's
3 correct, yes.

4 MR. ANTOINE HACAULT: Even with the
5 \$190 million loss, we have a 13 percent equity ratio
6 as of the date of in service of Keeyask, correct?

7 MR. AUREL TESS (by Teams): That is
8 correct. And, again, the impact of the drought is --
9 is what we're applying for relief from. The 398
10 million in budget variance between our -- our approved
11 budget and the forecasted impacts of the drought,
12 which are well documented in the application at 398
13 million.

14 MR. ANTOINE HACAULT: Could you
15 confirm -- and that's exactly the point. You see,
16 sir, the hundred and -- the 13 percent is including
17 the impact of the drought at 13 percent, and that's
18 equal to or better than the expected -- what was
19 expected at this point in time, correct?

20 MR. AUREL TESS (by Teams): Just give
21 me a moment, please.

22

23 (BRIEF PAUSE)

24

25 MR. ANTOINE HACAULT: I'll have to bug

1 Mr. Peters while I'm waiting. He talked about good
2 news story. It certainly seems to be a good news
3 story that's been happening here.

4 MR. AUREL TESS (by Teams): So, Mr.
5 Hacault, I just want to reiterate this -- this
6 forecast that you're looking at contains very dated
7 assumptions and was done for a different purpose.

8 But if I can take you to -- and, Ms.
9 Schubert, if you could turn to MFR-3, please.

10 MR. ANTOINE HACAULT: Could you answer
11 my question first? And then, if you want to advocate
12 and repeat things, that's okay.

13 But I asked you to confirm that, even
14 with a drought, the 13 percent equity ratio is equal
15 to or better than ever expected at this point in time.
16 You haven't answered that question, sir.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Well, I
21 answered it in the sense that this was not an
22 expectation for a rate application. But based on the
23 numbers you're presenting -- but not the correct
24 context -- that is accurate.

25 MR. ANTOINE HACAULT: Okay. Thank

1 you.

2 Could you also confirm that in none of
3 these scenarios on the first page of MIPUG Exhibit 6,
4 was it ever expected that we would have a \$200 million
5 net income year after Keeyask came into service?

6 MR. AUREL TESS (by Teams): So I'm
7 going to ask, again, to go back to MFR-3, please.

8 MR. ANTOINE HACAULT: Could you answer
9 the question, then you can go back to MFR-3?

10 MR. ALASTAIR FOGG (by Teams): Mr.
11 Hacault, it's Mr. -- it's Alastair Fogg. Maybe I can
12 help answering that.

13 I don't know that we expect to have a
14 \$200 million net income in '22/'23. We don't know
15 what that income will be at this time. We've based it
16 on an average of forty (40) water flow cases.

17 But that has a significant range of
18 variability of what that could ultimately be.

19 We would address that further in our
20 next rate application as well.

21 MR. ANTOINE HACAULT: But that's the
22 approved budget? It's no longer a preliminary one.
23 It's been approved by the Board, correct?

24 MR. ALASTAIR FOGG (by Teams): What
25 I'm trying to be clear is -- is budget -- it doesn't

1 align necessarily with what will actually occur and
2 there's significant variability when you set that
3 budget at this time.

4 MR. ANTOINE HACAULT: Thank you.

5

6 (BRIEF PAUSE)

7

8 MR. ANTOINE HACAULT: Could you also
9 confirm that there's no reason to expect that, at
10 average water, for the year ending 2024 and beyond,
11 that we will plummet into hundreds of millions of
12 dollars in net losses.

13 MR. AUREL TESS (by Teams): Well, we
14 can -- we can answer that question with what we know
15 now, Mr. Hacaault. And I think that's why I was trying
16 to kind of go back to MFR-3 to explain the current
17 situation with what we know now.

18 MR. ANTOINE HACAULT: Is there any
19 information in front of this Board with respect to
20 losses or profits after the year ending 2023?

21 MR. AUREL TESS (by Teams): No, there
22 isn't. But this is the information we have in front
23 of us that -- we know that this fixed cost structure
24 will continue though. We know that costs are going --
25 going up and not going down. We know that export

1 revenues will be made up more of opportunity export
2 sales, which are volatile and subject to, as we've
3 seen this year, great volatility in the market place.

4 And we -- and we know that, in '22/'23,
5 without the 5 percent increase, we'll have to continue
6 to borrow to pay core operations.

7 MR. ANTOINE HACAULT: You've packed a
8 lot of things into that answer, sir. One of the
9 things that -- if Mr. Cormie was around -- and I'm
10 sure his successor -- are you saying that with respect
11 to the export contracts, there are no efforts to
12 secure long-term export contracts.

13 MR. AUREL TESS (by Teams): No, I -- I
14 didn't state -- I didn't say that. We -- I think I've
15 previously indicated in this hearing that Manitoba
16 Hydro optimizes the -- the value of every electron
17 that we produce. And we continue to do that.

18 I'm -- what I'm simply pointing to is,
19 what we know now, as -- as I indicated and that
20 dependable sales are what they are right now and
21 you've seen that in the presentation to the credit
22 rating agencies.

23 I'm simply pointing to a risk that is
24 indicative of -- of our situation at Manitoba Hydro.
25 Unpredicted -- unpredictability of water and weather

1 and export and import prices is something that we face
2 on an on-going basis.

3 And assumptions that you're pointing to
4 in a -- in a forecast that was done in, what year was
5 that done in? Exhibit 93 -- pardon -- 2012, are
6 simply not relevant to the current situation, in my
7 mind.

8 A more urgent discussion is -- should
9 be centered around the current financial situation and
10 what we do know.

11 MR. ANTOINE HACAULT: Sir, I'll take
12 you to page 133 of MIPUG Book of Documents please.

13 Now, sir, I'll preface this with your
14 qualification as you said this is just a presentation
15 to the debt rating agencies, but I think you've agreed
16 that there's no misrepresentations in this
17 presentation to the debt rating agencies; correct?

18 MR. AUREL TESS (by Teams): Yeah,
19 that's correct. The -- the presentation was made to
20 again -- to -- to look at a certain rate trajectory
21 based on the budget and circumstances have
22 substantially changed and the impact of the drought,
23 that's well documented in our -- in our Application.

24 Of course a -- a big factor that was
25 not included in this scenario that's been provided

1 here. In addition to that, the credit rating agencies
2 are always provided with the same information that we
3 provided to the Board, in terms of the long-term
4 strategy not having been baked -- or -- the strategy
5 is not underpinning these numbers.

6 And that was a caveat -- a clear caveat
7 that was provided to the credit rating agencies upon
8 the presentation here.

9 MR. ANTOINE HACAULT: And I'll have
10 more questions on this, but this is the -- relates to
11 Manitoba Hydro Exhibit 6 where there was a
12 accumulative rate increase over twenty (20) years in
13 this scenario of 43.97 percent. Correct?

14 MR. AUREL TESS (by Teams): Sorry, my
15 mic was off. That is correct.

16 MR. ANTOINE HACAULT: And in -- at
17 that particular page of MIPUG Exhibit at page 133,
18 based on the assumptions, and there were a number of
19 them I imagine, put into this scenario.

20 This scenario is not indicating a
21 deterioration and net losses going forward. Correct?

22 MR. AUREL TESS (by Teams): Just one
23 (1) moment please.

24

25

(BRIEF PAUSE)

1 MR. AUREL TESS (by Teams): Sorry, Mr.
2 Hacault, just -- just to reiterate that this was a --
3 a -- a scenario that was provided to the credit rating
4 agencies, obviously a number of assumptions included
5 in here, such as the rate increases.

6 But I think the -- the more pertinent
7 information is really contained within our
8 application.

9 Again, for example, in '21, fiscal '21,
10 it was an assumption of a rate increase of 3 1/2 --
11 sorry, '21/'22 a rate increase of 3 1/2 percent
12 effective October 1st. Obviously, we know that didn't
13 happen and -- and we're here in a situation of a
14 drought, where there is a substantial impact on the
15 finances of Manitoba Hydro.

16 And, so I think you have to put all of
17 that in context when you're looking at these numbers.

18 MR. ANTOINE HACAULT: Thank you, sir.
19 I'm going to change subjects of -- the subject of
20 questioning to some of Manitoba Hydro's reported
21 indications as to the reasons to increase retained
22 earnings.

23 And to start that discussion, I had
24 distributed an integrated financial forecast. It was
25 MIPUG 2003 Drought. You could put that on the screen.

1 It's Manitoba Hydro documents. I'll mark it later as
2 Exhibit 8. I had just advised Ms. Schubert that
3 there's going to be another document as Exhibit 7.

4 If we could go to PDF, page 62, you'll
5 recognize Mr. Brennan's photograph on the left-hand
6 side in this annual report.

7 MR. AUREL TESS (by Teams): That seems
8 like a reasonable facsimile to me.

9 MR. ANTOINE HACAULT: Now, if we go
10 down to the third paragraph of his comments, on that
11 page, Mr. Brennan is explaining that the Corporation's
12 long-term financial plan is taken into account that
13 drought conditions typically occur every ten (10)
14 years or so, and he indicates we plan to have
15 sufficient retained earnings to accommodate the
16 financial impact. Do you see that, sir?

17 MR. AUREL TESS (by Teams): Yeah, I
18 do.

19 MR. ANTOINE HACAULT: And, we were
20 fortunate, I guess, because from 2003 to date, I count
21 more than ten (10) years.

22 MR. AUREL TESS (by Teams): Yes.

23 MR. ANTOINE HACAULT: And that meant
24 that -- has meant that Manitoba ratepayers have been
25 putting into retained earnings since that 2003 drought

1 with respect to accommodating the financial impact of
2 a drought. Would you agree, sir, amongst other
3 things?

4 MR. AUREL TESS (by Teams): Yes.

5 MR. ANTOINE HACAULT: And if we go to
6 page 111 of that PDF, it's further on into this
7 report, a bit further down the paragraph that --
8 starts with "while net loss 2003/'04 was significant.
9 It was not unexpected."

10 Do you see that, sir?

11 MR. AUREL TESS (by Teams): Yes.

12 MR. ANTOINE HACAULT: And, the
13 Corporation is explaining that Manitoba Hydro's long-
14 term financial forecast take into account that drought
15 conditions will typically occur about once every ten
16 (10) years, and that such conditions will have
17 negative financial consequences.

18 And further the risk of drought was one
19 (1) of the primary drivers between the significant
20 buildup in retained earnings over the past decade.

21 Do you see that, sir?

22 MR. AUREL TESS (by Teams): I do. I
23 just want to maybe hand it over Kevin to -- to comment
24 on the assumptions that are in here with regard to the
25 assumption about every ten (10) years that such

1 conditions will have a negative impact on finances.

2 MR. KEVIN GAWNE (by Teams): Yeah,
3 thank you, Mr. Tess. It's -- it's an easy way to
4 explain, I guess, the -- on average, over a long
5 period of time the risk of a drought would be once
6 every -- or the occurrence of a drought, on average,
7 would be once every ten (10) years.

8 But, as we know, that's not how
9 hydrology works. We have a drought, and then we've
10 got ten -- nine (9) years at least of good water, and
11 then we'll get our drought in ten (10) years. It
12 doesn't work that way, and -- and I think it's -- it's
13 helpful to look at PUB-MFR-17 really quickly, if
14 possible, just to -- to make that point. PUB-MFR-17,
15 please, Ms. Schubert. Thanks.

16 Now, so, as you can see, and as
17 Mr. Hacault had pointed out in the last ten (10) years
18 or so, actually closer to seventeen (17) years, we've
19 had an average -- or above average water supply
20 conditions.

21 If you look at the full record, there's
22 long periods of consecutive years of below average,
23 and there is long-term cycles in the hydrology. This
24 addresses our point, as we've made earlier about, you
25 know, once we're in drought, there's a greater

1 likelihood of next year being drier than average. It
2 is difficult to account for that exactly in the math.

3 So, our forecast doesn't necessarily
4 project a -- specifically a drought happening next
5 year but, if, you -- you know, it's a very simple way
6 to go at it. If you look at -- start at a year where
7 you're below average and count how many times a year
8 after that is also below average, and you really --
9 and if you do the same and count how many times a year
10 after a dry year is -- flips to a wet year, and that
11 happens about half as often.

12 So, you know, we're in a drought now
13 and when you're in a drought, basically, the chances
14 are, in the second year, based on a simple count,
15 twice as likely as flipping to above average.

16 So, it's false to kind of -- it's --
17 it's easy to simplify that a drought happens once
18 every ten (10) years and it's a severity, but that's a
19 very simplified approach to looking at hydrology, and
20 the reality is it's a lot more complex than that, and
21 -- and our record shows that -- our hydrologic record
22 shows that. Thanks.

23 MR. ANTOINE HACAULT: And that's why
24 you explained to Mr. Williams, when he was asking you
25 questions, and I think it's on the record that you

1 actually bake in to next year's projections the lower
2 water levels, as indicated. Correct?

3 MR. KEVIN GAWNE (by Teams): Correct.
4 We bake in to the projections for next year the lower
5 starting levels but we also assume conditions can
6 transition to every -- any of those 40 flow years, but
7 we're not baking in to that projection next year that
8 we're starting from a -- a very dry position.

9 So, we're not weighting the dry years
10 any higher in our simulation for next year. So, it's
11 -- it -- of course we're reflecting the starting
12 storage conditions. Yes, that's in our forecasts, but
13 this persistence or the memory of the basin, it's very
14 difficult to capture in the hydrologic modelling and -
15 - and, as I stated on Mon -- Friday, you know, the
16 assumption is we transition to any one of forty (40)
17 possible flow years for next year for the financial
18 forecast purpose.

19 MR. ANTOINE HACAULT: Thank you. I'll
20 move to the 2015 Corporate Risk Management Report.
21 It's found at CAC, page 63, CAC Exhibit 4.

22 At this page of the Corporate Risk
23 Management Report, there's a bullet that indicates:

24 "Adequate financial reserves are
25 required to protect against a repeat

1 of the worst flood on record. At
2 March 31, 2015 retained earnings
3 totalled \$2.8 billion. It should be
4 noted, however, that while flood --
5 drought is a major quantifiable
6 risk, an adequate level of retained
7 earnings is required to recover from
8 other significant risks, such as
9 prolonged loss of supply or the loss
10 of export market access".

11 So, the retained earnings would cover
12 the items in the quote that I've just read. Correct?
13 Acknowledging that you've said a number of times it's
14 not cash.

15 MR. ALASTAIR FOGG (by Teams):
16 Mr. Hacault, it's Alastair Fogg. I -- retained
17 earnings could be one (1) portion that could address
18 those risks, whichever risks may occur. This maybe
19 doesn't speak to it but those -- multiple of those
20 risks could occur at one time, which would, again,
21 require different action.

22 So, I'm not sure it would -- it's
23 indicating that that's a sole approach or a sole thing
24 that would be used to manage or mitigate the impact of
25 drought risk.

1 MR. ANTOINE HACAULT: Okay, but we're
2 not getting into that and there's no evidence of that.
3 Actually, that was under former Chair Graham Lane that
4 we had this huge risk analysis hearing, where we
5 actually had expert evidence dealing with whether
6 there was correlation between the various risks and
7 that's not evidence in this hearing, right?

8 MR. ALASTAIR FOGG (by Teams): Nope,
9 to clar -- to clarify, you're -- that's correct. I --
10 I think you've been specific to drought.

11 What I would like -- was trying to
12 clarify is that retained earnings wouldn't necessarily
13 be the sole item used to mitigate the impact of the
14 drought.

15 MR. ANTOINE HACAULT: Okay. Thank
16 you. I'll move on to interest coverage ratio.

17 My understanding at -- it was -- this
18 was at page 138, the Corporation pointed out that
19 there was 42 percent interest to revenue coverage
20 ratio and, if we could go to page 112 of 700 of the
21 Book of Documents of Board counsel, so page 112 of
22 700.

23 So, it is my understanding, if we look
24 at this table, which is PUB-MFR-3, what's referred to
25 as the Preliminary Plan for '22/'23 is now the budget

1 and to calculate where we're going to be as far as
2 interest to revenue ratio, am I right that I take from
3 the revenues the total of \$2,802,000,000 and look at
4 the net finance expense at \$1,039,000,000?

5 Is that the ratio I look at?

6 MR. AUREL TESS (by Teams): I just
7 need a moment, please.

8

9 (BRIEF PAUSE)

10

11 MR. AUREL TESS (by Teams): Mr.
12 Hacaault, if you could go to -- or, sorry, if you could
13 go to MFR-6, I believe the calculation is indicated
14 there.

15 MR. ANTOINE HACAULT: It comes to
16 thirty-seven cents on a dollar, using those two (2)s
17 numbers?

18 MR. AUREL TESS (by Teams): Just to
19 clarify, are you talking about the interest as a
20 percentage of revenue? Is that the figure you're
21 trying to calculate or verify?

22 MR. ANTOINE HACAULT: It was - you had
23 put forty-two cents on a dollar with respect to
24 2021/2022 and I was --

25 MR. AUREL TESS (by Teams): Correct.

1 MR. ANTOINE HACAULT: -- to have the
2 same metric applied to 2022/2023.

3 MR. AUREL TESS (by Teams): Right, and
4 it -- it, I believe we have that in the application in
5 this section. Sorry. Well, it's a figure 5.

6 So it's -- it's interest paid and it's
7 keeping in mind that we do capitalize some portion of
8 our interest. So, this interest paid as a percentage
9 of total revenue drops to 37 percent, and that's
10 primarily being driven by the fact that our revenue
11 that we're projecting is going up in that -- in that
12 year.

13 MR. ANTOINE HACAULT: And, as you say,
14 because of the decreased revenue forecasted for the
15 year ending 2022, the percentage is 42 percent; that
16 was your point?

17 MR. AUREL TESS (by Teams): Exactly.
18 Yep.

19 MR. ANTOINE HACAULT: Okay. Now, I'd
20 like to go back to the larger Book of Documents by PUB
21 Counsel, at page 115, and this was, again, a -- a
22 Manitoba Hydro analysis, but based on cash flow.
23 Correct?

24 MR. AUREL TESS (by Teams): Correct.
25 Yeah.

1 MR. ANTOINE HACAULT: And, if we use
2 cash flow, cash from customers at the top of this page
3 is \$2,793,000,000 for the 2022/2023 budget year.

4 Correct?

5 MR. AUREL TESS (by Teams): You're
6 looking at the line 'Cash Receipts from Customers'?

7 MR. ANTOINE HACAULT: Yes, at the very
8 top.

9 MR. AUREL TESS (by Teams): Correct.
10 Correct, yes.

11 MR. ANTOINE HACAULT: Okay. And this
12 is why, as the lawyer in me, I may -- may not be doing
13 things right. We go down two (2) more lines,
14 'Interest Paid for 2022/2023', the budget is one
15 billion forty-six million (1,046,000,000), correct?

16 MR. AUREL TESS (by Teams): That's
17 correct.

18 MR. ANTOINE HACAULT: So if we take
19 the cash perspective -- and I always have problems
20 with the -- these financing things -- we're still at
21 37 percent, correct?

22 MR. AUREL TESS (by Teams): Just one
23 (1) moment, please.

24

25 (BRIEF PAUSE)

1 MR. ANTOINE HACAULT: And if your back
2 row is doing calculations, please ask them to confirm
3 that, for 2021/2022, on a cash basis, it's also 42
4 percent, so it doesn't change from a financial
5 perspective or a cash perspective.

6 MR. AUREL TESS (by Teams): That --
7 that's true. We were just trying to assess the logic
8 of that because on our -- on our revenue, you know,
9 it's done on an accrual basis. This is a cashflow
10 statement, so our indicator is based on -- on the
11 accrued revenue plus the cash received.

12 So, for example, you may have revenue
13 that's accrued for the year but not yet received. So
14 to us, that's the -- the better indicator, and that's
15 why we've used that indicator, not the cash indicator.

16 MR. ANTOINE HACAULT: But both are the
17 same, at least on a percentage basis, correct?

18 MR. AUREL TESS (by Teams): I think
19 you may have -- that could just be a coincidence,
20 frankly.

21 MR. ANTOINE HACAULT: Well, if we go
22 back to MIPUG Exhibit 6 at the bottom, the range of --
23 and my notes may be wrong.

24

25

(BRIEF PAUSE)

1 MR. ANTOINE HACAULT: It's on the
2 second page of that exhibit. I apologize. The
3 numbers are pretty small here, but there were interest
4 coverage ratios.

5

6 (BRIEF PAUSE)

7

8 MR. ANTOINE HACAULT: And also the
9 proportion of interest. I'll move on. This is kind
10 of a technical area.

11 And with respect to liquid assets, I
12 believe around page 361 of the transcript at lines 24
13 and 25, the transcript indicates that you believe
14 that, in 2003 for the flood, that there were more
15 liquid assets that were available.

16 Do you remember that discussion with
17 Mr. Peters?

18 MR. AUREL TESS (by Teams): I do, and
19 I just wanted to point out something about the NFAT
20 projections you've been putting up there. I do note
21 that those are consolidated forecasts as well, so
22 another reason why I wouldn't be comparing those
23 numbers to our electric segment.

24 But I do recall this discussion, and I
25 believe at the time of that previous drought, that we

1 -- '03, I believe it was -- there was money sitting in
2 -- there was cash sitting in our sinking-fund account.

3 MR. ANTOINE HACAULT: But that cash,
4 the purpose is to repay debt, right? It's not cash to
5 be used for drought.

6 MR. AUREL TESS (by Teams): That's
7 correct.

8 MR. ANTOINE HACAULT: Okay.

9 MR. AUREL TESS (by Teams): It -- it
10 was liquid, though, compared to now we don't have that
11 luxury.

12 MR. ANTOINE HACAULT: And, Ms.
13 Schubert, if you could bring up the document that's
14 identified as Manitoba Hydro 2004/2005, tab 7, we'll
15 mark that as MIPUG Exhibit 7.

16
17 --- EXHIBIT NO. MIPUG-7: MH 2004-2005 rate increase
18 application, tab 7,
19 December 13, 2021

20
21 MR. ANTOINE HACAULT: And on page 3 of
22 7, we see that, at line 14, the Corporation was
23 reporting that the repeat of the worst drought on
24 record would cost the Corporation at least \$1.1
25 billion of loss of energy volumes.

1 Do you see that?

2 MR. AUREL TESS (by Teams): I do.

3 MR. ANTOINE HACAULT: And if we go
4 back to the IFF document, which I'll now mark as
5 Exhibit 8 at page 36 of the PDF, which is page 33 of
6 the -- that IFF.

7

8 --- EXHIBIT NO. MIPUG-8: Consolidated integrated
9 financial forecast - 2003
10 Drought, December 13, 2021

11

12 MR. ANTOINE HACAULT: Don't forget to
13 turn that around, Ms. Schubert.

14

15 (BRIEF PAUSE)

16

17 MR. ANTOINE HACAULT: I was going to
18 bring you, sir, to the retained earnings for that
19 particular year where we just saw that the drought
20 would cost \$1.1 billion. And if we can get the page
21 flipping for us, it'll be easier to read that there
22 was retained earnings at \$759 million for that
23 particular year.

24

25 Be able to see that now for -- under
the year 2004 retained earnings of \$759 million when

1 the anticipated cost would be \$1.1 billion?

2 Do you see that, sir?

3 MR. AUREL TESS (by Teams): Yes.

4 MR. ANTOINE HACAULT: And as we go
5 back --

6 MR. ALASTAIR FOGG (by Teams): Sorry,
7 Mr. -- Mr. Hacault. Just -- this is Alastair Fogg.
8 Just to clarify, just to be sure, I -- I believe the
9 retained earnings of seven hundred and fifty-nine
10 (759) in 2004 are following the 2003 drought.

11 So those would have been -- that would
12 incorporate the impact of the drought itself on the
13 retained earnings, and I suspect part of that would
14 then be -- those would have been -- you would -- to
15 increase those to -- be prepared should that 1.1
16 billion drought event occur in the future.

17 I believe that would be what -- what
18 the message was at that point in time. But the seven
19 fifty-nine (759) would be after those had been drawn
20 down along with the rate increases that the Public
21 Utility Board approved for -- to address the drought
22 at that time.

23 MR. ANTOINE HACAULT: Well, if we go
24 back two (2) pages, we'll have more of what you're
25 talking about, sir.

1 MR. ALASTAIR FOGG (by Teams): Sure.

2 MR. ANTOINE HACAULT: For the year
3 ending 2004, there was net income -- negative net
4 income of 355 million. That's your point, sir?

5 MR. ALASTAIR FOGG (by Teams): Yes,
6 that's my point. Thank you.

7 MR. ANTOINE HACAULT: Okay. And if we
8 go back -- if we go one (1) page further in this
9 document, we'll see that with the \$1.1 billion impact,
10 the general consumers revenue was only \$901 million,
11 correct?

12 So, the impact of the drought was
13 greater than the revenues being generated from
14 Manitobans, correct?

15 MR. AUREL TESS (by Teams): Just one -
16 - one moment, please.

17 MR. ALASTAIR FOGG (by Teams): And
18 perhaps just to clarify, I believe the -- the mention
19 on the -- the other document you brought up of the 1.1
20 billion is an estimate of what the repeat of a worst
21 drought on record would cost the Corporation, not the
22 costs that were incurred; however, I could be
23 incorrect, but that's what I read on that document,
24 the other document you showed, that you put upon the
25 screen.

1 MR. AUREL TESS (by Teams): Yeah, that
2 was my impression, as well. I thought it was a multi-
3 year.

4 MR. ANTOINE HACAULT: Point taken.
5 But nonetheless, if we go now and -- you'll see that
6 the total domestic revenues were \$901 million compared
7 to the cost of the drought as you've explained it, and
8 that exceeded one (1) year of domestic revenue,
9 correct?

10 MR. AUREL TESS (by Teams): Right now
11 we're looking at the balance sheet. The -- I'm just
12 wondering where the source is for that information,
13 Mr. Hacault.

14 MR. ANTOINE HACAULT: Well, the source
15 -- I put to you the source of the 1.1 billion. And I
16 put to you the source of 901 million, which is on the
17 electric operations projected operating statement IFF-
18 03. It's page 32 of that IFF.

19 MR. AUREL TESS (by Teams): Can we --
20 can we go back to your -- the cost of the drought page
21 for a second because, again, I think we have to
22 confirm if we're comparing the impact over two (2)
23 years or one (1) year?

24 MR. ANTOINE HACAULT: That was what
25 we've marked as MIPUG Exhibit 7.

1 MR. AUREL TESS (by Teams): Just one
2 moment, please.

3

4 (BRIEF PAUSE)

5

6 MR. AUREL TESS (by Teams): So,
7 looking at -- at -- that was a speculative number, I
8 believe if -- like, the worst drought on record for
9 two (2) fiscal years is a carry forward of -- of the
10 drought that was experienced in '03.

11 MR. ANTOINE HACAULT: Now, you'll
12 agree today, sir, the total domestic revenue is in the
13 range of \$1.8 billion? That's at PDF page 112 of the
14 seven hundred (700) pages of the Board book of
15 documents.

16 MR. AUREL TESS (by Teams): Is that
17 fiscal year -- just to confirm, the fiscal year
18 '21/'22 that you're referencing there?

19 MR. ANTOINE HACAULT: That's --

20 MR. AUREL TESS (by Teams): Yes, I can
21 confirm that, yes.

22 MR. ANTOINE HACAULT: Okay. And the
23 cost of the drought, this is a five (5) year drought
24 is \$1.3 billion?

25

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: Subject to
4 check, that's your information?

5 MR. AUREL TESS (by Teams): Yes,
6 subject to check.

7 MR. ANTOINE HACAULT: And if we go to
8 -- back to the IFF document, which is MIPUG Exhibit 8,
9 at PDF page 36. If we look at the debt-to-equity
10 ratios, they were declining, if we're coming back in
11 2012 to the 2004 level, correct?

12 MR. AUREL TESS (by Teams): Yes.

13 MR. ANTOINE HACAULT: And if we go to
14 page 37 of the same documents, there's a line, "Funds
15 from operation"?

16

17 (BRIEF PAUSE)

18

19 MR. ANTOINE HACAULT: So, this kind of
20 stuff confuses me a bit, but you've got a loss of 355
21 million, correct?

22 MR. AUREL TESS (by Teams): That's --
23 that's the starting point, I believe, yes.

24 MR. ANTOINE HACAULT: And because in
25 accounting, and this is a non-cash item, we have

1 depreciation of 247 million. When we're calculating
2 funds from operation, we take that off because that's
3 not really a cash item, correct?

4 MR. AUREL TESS (by Teams): That's
5 correct.

6 MR. ANTOINE HACAULT: And then there's
7 other at minus 20 million. But the point in that --
8 is that at the end of the fiscal year 2004, which is
9 the drought year, funds from operations were actually
10 a negative 101 million, correct?

11 MR. AUREL TESS (by Teams): The funds
12 from operation, yes, that's -- that's true, they were
13 in a negative position there.

14 MR. ANTOINE HACAULT: Okay. And if we
15 compare that to the current situation which we can see
16 at page 114 of that 700 PDF of Board book of documents
17 of the PUB.

18

19 (BRIEF PAUSE)

20

21 MR. ALASTAIR FOGG (by Teams): Mr.
22 Hacault, just -- it's Alastair Fogg.

23 Just maybe if we're going to compare
24 the 2003/2004 drought today -- to today, it's
25 important to just recall that at that -- in 2003, we

1 had completed Limestone for approximately ten (10)
2 years and we were really in a period where we were --
3 where generated further value from that, whereas
4 today, when we talk about drought, we also have the
5 obligations around Keeyask, Bipole 3, and the other
6 capital projects that we need to address the revenue
7 requirement, excuse me, in addition to the drought.

8 So, in -- in some respects, it is quite
9 a different situation when you look at those two (2)
10 droughts, the 2003 drought and today's drought.

11 MR. ANTOINE HACAULT: Yeah. And we
12 can't get into all of that because we don't have
13 forecasts on how much revenue is going to be generated
14 by this new inter tie line, by Keeyask, by all the new
15 contracts.

16 So, unfortunately, we can't have that
17 discussion, but we can have this discussion. The
18 forecast 2021/2022, the cash provided by operating
19 activities for that year, instead of being negative,
20 is actually a positive 270 million, correct?

21 MR. AUREL TESS (by Teams): That's
22 correct, Mr. Hacault. But I do want to state though
23 that those items that you just mentioned there are all
24 taken into account, export revenue and dependable
25 contracts.

1 They -- they are in the forecast and
2 they are in a preliminary plan, so.

3 MR. ANTOINE HACAULT: Sorry, I used
4 the word 'forecast' in the sense of the usual
5 integrated forecast that we had for twenty (20) years.
6 We don't have that, correct?

7 MR. ALASTAIR FOGG (by Teams): No, but
8 -- it's -- it's Alastair Fogg again.

9 But as we compare year to year, I guess
10 that it's important to have that -- that context if
11 we're comparing one (1) year of 2003 to this year,
12 today, despite other longer term forecasts.

13 What -- what we're just trying to say
14 is that you need to understand the -- the broader
15 situation of the 2003/2004 year versus the '21/'22,
16 '22/'23 years that we have right now.

17 MR. ANTOINE HACAULT: Thank you for
18 that input, sir. I'll take you back to the IFF
19 document, MIPUG Exhibit 8, at PDF page 37.

20 Now, if I'm looking at the cash
21 liquidity, we just saw that it's negative 101 million.
22 Are you following me so far? For 2004.

23 MR. AUREL TESS (by Teams): Yes.

24 MR. ANTOINE HACAULT: And even with
25 that negative number, as compared to the 270 million

1 positive that we have now, the Corporation was
2 applying 72 million into the sinking fund deposit?

3 MR. AUREL TESS (by Teams): That's
4 correct.

5 MR. ANTOINE HACAULT: And it was
6 making \$95 million of other cash outlays?

7 MR. AUREL TESS (by Teams): That's
8 correct.

9 MR. ANTOINE HACAULT: And the
10 financing, even in -- with -- with all those metrics
11 in that particular year, the financing requirements
12 for 2004 were \$759 million, correct? That's the last
13 line.

14 MR. AUREL TESS (by Teams): That's
15 correct.

16 MR. ANTOINE HACAULT: Now, you have
17 talked about the sinking fund being cash. But it's
18 not really cash, is it, sir, because it's actually
19 transferred to the province for purposes of repaying
20 debt? It's not cash held by Hydro, correct?

21 MR. AUREL TESS (by Teams): Just one
22 (1) moment, please.

23

24 (BRIEF PAUSE)

25

1 MR. ANTOINE HACAULT: I can take you
2 to page -- or PDF page 135 of the annual report for
3 this year that explains this.

4 Could Ms. Schubert go to page 135. It
5 might help this -- the witness answer the question.

6

7 (BRIEF PAUSE)

8

9 MR. ANTOINE HACAULT: No, in the
10 document which you were in, the IFF document at page
11 135, please. Thank you.

12 You'll see note 7 that explains what
13 happens with sinking fund investments.

14 And my question to you was -- or my
15 suggestion to you is that the sinking fund is actually
16 transferred to the province for purposes of repaying
17 debt. It's not a cash held by Hydro.

18 MR. AUREL TESS (by Teams): Well, I
19 think the way you've characterized it might be
20 slightly out because the cash is held by the province
21 in trust on behalf of Manitoba Hydro, and it is for
22 the purpose of repaying debt.

23 MR. ANTOINE HACAULT: That's right.

24 And --

25 MR. AUREL TESS (by Teams): Yeah.

1 MR. ANTOINE HACAULT: -- 'cause if we
2 go to page 153 of this PDF, there's actually a
3 definition. Page 153. Sorry, 150 of 153. The top
4 right-hand corner.

5 The sinking fund is defined, and I'm
6 quoting.

7 A fund of cash and security set up
8 to provide for the orderly
9 retirement of a debt.

10 That's the purpose of it, is to retire
11 a debt, correct?

12 MR. AUREL TESS (by Teams): Correct.
13 So -- but you might agree though that if you're
14 retiring more debt using a sinking fund, it's -- it's
15 offsetting the borrowing you might have to do in that
16 year.

17 And that was the point I was trying to
18 make in the discussion with Mr. Peters, was that
19 having that sinking fund gives us the ability to -- to
20 offset our borrowing and...

21 MR. ANTOINE HACAULT: Now, I'm going
22 to cover a different area with you, sir.

23 MR. ALASTAIR FOGG (by Teams): Maybe,
24 Mr. Hacault -- it's Alastair Fogg -- just before we
25 leave this topic.

1 I guess, to kind of conclude what we --
2 to clarify to the -- to the Board, I think what we
3 would say is we -- we're borrowing for core operations
4 at the -- in the drought of '03, and we're doing that
5 again for this drought. And -- and that is one of our
6 key concerns.

7 MR. ANTOINE HACAULT: I'll go through
8 some of that because you have options, and we haven't
9 gone through all of that, as to cutting costs.

10 And those capital expenses are long-
11 term capital expenses, not pure expenses that don't
12 last for more than a year? Isn't that right? And
13 you're borrowing --

14 MR. AUREL TESS (by Teams): Right.

15 MR. ANTOINE HACAULT: -- to pay
16 capital expenses. It's not a pure expense; it's a
17 long-term value asset, correct?

18 MR. AUREL TESS (by Teams): And you're
19 talking about our business operations capital, I
20 assume?

21 MR. ANTOINE HACAULT: Yes.

22 MR. ALASTAIR FOGG (by Teams): But
23 from a borrowing perspective, it's still cash that we
24 are borrowing today.

25 MR. ANTOINE HACAULT: But to have --

1 and had in my answer, it's -- these assets are long-
2 term assets; they aren't a single year expense?

3 MR. AUREL TESS (by Teams): That's
4 correct.

5 MR. ANTOINE HACAULT: Yeah. Now, I
6 understand your position to be that there needs to be
7 enough positive free cash flow in a normal year so
8 when you have a drought there's no cash shortfall.

9 Is that your position, sir?

10 MR. AUREL TESS (by Teams): Sorry, Mr.
11 Hacaault, can you repeat that?

12 MR. ANTOINE HACAULT: I understand
13 your position to be that there needs to be enough
14 positive free cash flow in a normal year so a drought
15 year leads to no cash shortfall.

16 MR. AUREL TESS (by Teams): Well,
17 like, we've taken the position that -- we -- we've
18 been borrowing from major capital. Not borrowing --
19 like, in a period of a drought, we're actually
20 borrowing projected to be 348 million to pay core
21 operations, and that's not -- that's not sustainable.

22 And the cost of that is approximately -
23 - or overhead or, you know, the interest costs on that
24 would be 13 million, which would have to be passed on
25 to customers. It's -- it's not a sustainable thing to

1 continue to do that. That's the position we're
2 taking.

3 And -- and business operations capital
4 is -- is essentially risk mitigation to prevent the
5 system from -- from collapsing. And it's -- it's --
6 it goes through a liability, sustainability of the
7 system. And I don't think anybody in Manitoba wants a
8 grid to be an unreliable system without the -- the
9 necessary mitigation.

10 MR. ANTOINE HACAULT: We're not
11 getting into all that in this interim rate
12 application, sir. There's extensive stuff that gets
13 dealt with on capital and -- and prudence of capital
14 and necessity of capital.

15 My question to you was: It appears
16 that Manitoba Hydro, under your testimony, wants to
17 have enough positive free cash flow in a normal year
18 so that when you hit a drought year it leads to no
19 cash shortfall. Is that your position?

20 MR. AUREL TESS (by Teams): No. I
21 just told you our position, really. When it comes --
22 sorry. When it comes to cash flow, our position was
23 stated in the Application.

24 MR. ANTOINE HACAULT: Thank you. What
25 do we do with all this cash in the years where there

1 isn't a drought? You said we have to set it aside.

2 We have --

3 MR. AUREL TESS (by Teams): Well,
4 right now -- oh, debt -- debt retirement would be the
5 objective of Manitoba Hydro. Again, just to get back
6 to an unsustainable situation with the level of debt
7 that we're incurring, debt retirement would be the
8 objective, the longer term objective.

9 MR. ANTOINE HACAULT: But as you've
10 discussed with Mr. Williams, Manitoba Hydro and the
11 customers are paying the govern -- the Province of
12 Manitoba a 1 percent guarantee fee to be able to
13 access credit when a drought arises, correct?

14 MR. AUREL TESS (by Teams): No, that's
15 not -- that's not my understanding of the guarantee
16 fee. The guarantee fee is -- it essentially allows us
17 to access the interest rates at a more competitive
18 rates, similar to what the province accesses.

19 MR. ANTOINE HACAULT: And also their
20 ability to access credit, correct?

21 MR. AUREL TESS (by Teams): Their
22 ability or our ability?

23 MR. ANTOINE HACAULT: Yes. Well, your
24 ability --

25 MR. AUREL TESS (by Teams): Our

1 ability --

2 MR. ANTOINE HACAULT: -- through the
3 province.

4 MR. AUREL TESS (by Teams): Our
5 ability, yes. I would agree our ability, yes.

6 MR. ANTOINE HACAULT: Through the
7 province, correct?

8 MR. AUREL TESS (by Teams): That's
9 right.

10

11 (BRIEF PAUSE)

12

13 MR. ANTOINE HACAULT: And I think its
14 been confirmed that for next year we're including all
15 -- both scenarios which includes positive years, but
16 it also includes the worst drought scenario and the
17 second worst drought scenario, correct? They're all
18 mixed together with the potential impacts?

19 MR. AUREL TESS (by Teams): I'll just
20 ask Mr. -- Mr. Gawne to respond to that, please.

21 MR. KEVIN GAWNE (by Teams): Yes, its
22 Kevin Gawne.

23 Sorry, Mr. Hacault, you were asking if
24 next, in the 2022/'23 forecast, we're assuming all the
25 worst -- all flow conditions, including the worst

1 drought on record?

2 MR. ANTOINE HACAULT: Well the -- the
3 forty (40) year scenario has a -- a worst scenario and
4 some better scenarios, correct?

5 MR. KEVIN GAWNE (by Teams): The forty
6 (40) year scenario has almost the worst scenario, but
7 not the lowest of all the record. The lowest flow
8 case is the '40/'41 drought and that's not included in
9 that forty (40) year record. But it does include a
10 range of flow conditions, including floods and
11 droughts.

12 MR. ANTOINE HACAULT: Okay. Now, I'm
13 going to move on to the forecasted income of 200
14 million. And I appreciate your previous comments,
15 that this is just a forecast which has been approved.

16 But this is a forecast with no further
17 rate increases after the 5 percent, correct?

18 MR. AUREL TESS (by Teams): The
19 assumption we made in -- in the preliminary plan was
20 that we would not be able to -- to get that rate
21 increase in time. And I think we've commented that
22 its -- its really a matter of timing, not -- not
23 something that we don't think we do need a rate
24 increase on an annual basis with the financial metrics
25 that we have. However, that was a budget assumption

1 that we made, given the timing of -- and complexity of
2 the next rate application that we have to engage in.

3 MR. ANTOINE HACAULT: But if I
4 understood your testimony earlier today, Manitoba
5 Hydro has not foreclosed asking for further increases,
6 even if there is no drought

7 MR. AUREL TESS (by Teams): That's
8 correct. We've been forecasting the need for a 3 1/2
9 percent, I believe, for some time, since 2009; that
10 was something that was in the body of our application
11 and that -- that's something that we're confident will
12 be needed going forward.

13 MR. ANTOINE HACAULT: But, again, we
14 don't have an integrated financial forecast going out
15 twenty (20) years which shows the rate traj --
16 trajectory that's required to reach the debt equity
17 ratios, correct?

18 MR. AUREL TESS (by Teams): I think we
19 -- we need to probably go back to the testimony of Ms.
20 Grewal on -- Ms. Schubert if you could put up the -- I
21 think its page 155.

22 So, Ms. Grewal referred to two (2) key
23 variables that are missing from -- and is the primary
24 reasons for not having the integrated forecast --
25 energy --

1 MR. ANTOINE HACAULT: I'm not
2 questioning that. I mean I don't want to re-hear the
3 same testimony and argument again; it's there. I'm
4 just saying, we don't have the integrated financial
5 forecast over twenty (20) years to have that
6 discussion.

7 MR. AUREL TESS (by Teams): But with
8 all due respect, you raised the topic and I'm just
9 answering the question.

10 MR. ANTOINE HACAULT: Now, if we go to
11 page 41 of 700 of the book of documents, you've
12 referred to this table a number of times.

13 Basically, the entire impact of Keeyask
14 and other major capital is imbedded but -- into the
15 2022/2023 budget, except to the extent noted on this
16 table, correct?

17 MR. AUREL TESS (by Teams): That's
18 correct.

19 MR. ANTOINE HACAULT: Now, if we go to
20 page 114 of this book of documents for the year
21 '22/'23, which is entitled 'Preliminary Plan', but is
22 now an approved budget.

23 Am I understanding this table correctly
24 that, basically, under financing activities, we're
25 borrowing as much as we're retiring; we're not getting

1 more financing in -- in the next fiscal year, based on
2 this budget?

3 MR. AUREL TESS (by Teams): You're
4 referring to the proceeds from long-term debt versus
5 the retirement of long-term debt?

6 MR. ANTOINE HACAULT: Yes, so under
7 the line --

8 MR. AUREL TESS (by Teams): Yeah.

9 MR. ANTOINE HACAULT: -- 'Preliminary
10 Plan', if we go financing activities --

11 MR. AUREL TESS (by Teams): Yeah.

12 MR. ANTOINE HACAULT: -- we see
13 proceeds from long-term debt is 1.1 billion and
14 retirement of long-term debt is close to the 1.1
15 billion. So there's no new financing required next
16 year, based on this budget?

17 MR. AUREL TESS (by Teams): No, no,
18 we've -- as we stated yesterday, I believe, in our
19 testimony on this very same report, we're looking at
20 financing using -- using funds from the -- from the
21 previous year that were borrowed for business
22 continuity purposes; they would not be required going
23 forward.

24 So you can see that bottom line there -
25 - increase, decrease in cash, there's -- there's a

1 \$530 million deficiency, but then we have cash at the
2 beginning of the year of one (1) -- one one two one
3 (1121), and that's being brought forward to fund that
4 deficiency for the year.

5 So no incremental borrowing is what
6 we're -- for core operations is what we're
7 forecasting, yes.

8 MR. ANTOINE HACAULT: And here again
9 this is just the lawyer maybe not knowing math very
10 well, but what you're in fact doing is you're putting
11 another net amount into the sinking fund, right?

12 If we go under financing activities,
13 your sinking fund investment withdrawals at \$185
14 million, then sinking fund investment purchases at 431
15 million, so my lawyer math says that the Corporation
16 next year expects to put \$246 million into the sinking
17 fund.

18 MR. AUREL TESS (by Teams): Just one
19 (1) moment please.

20

21 (BRIEF PAUSE)

22

23 MR. ANTOINE HACAULT: Is the --

24 MR. AUREL TESS (by Teams): Sorry.

25 MR. ANTOINE HACAULT: It's that bad?

1 MR. AUREL TESS (by Teams): No, no,
2 its not the math. Its -- so essentially we've made a
3 planning assumption about having to hold funds in the
4 sinking fund for -- it would be in US funds. This is
5 part of our hedging strategy. This is to offset
6 potential currency exchange issues that -- that we
7 could encounter with US exports going back up again.

8 But, again, its something that may or
9 may not materialize depending on the level of US
10 exports.

11 MR. ANTOINE HACAULT: But you already
12 have an -- I'm not going to get in all of that --
13 you've already got US contracts on sale of power in US
14 funds, and that's been explained as one (1) of the
15 hedging mechanisms that you have to deal with US
16 funds, correct?

17 MR. AUREL TESS (by Teams): One (1) of
18 the mechanisms is -- is the -- you know, we hold US
19 debt to -- to offset funds received in US dollars.
20 That's one (1) mechanism.

21 The second is the one you're kind of
22 looking at here that would potentially occur, if we
23 need to do additional hedging in the US because of US
24 export levels.

25 MR. ANTOINE HACAULT: Okay. And

1 compared -- if I look to -- to 2020/'21 and the budget
2 2022 and the forecast for '21/'22, in those years
3 basically there is as much going in as going out of
4 the sinking funds, right?

5 MR. AUREL TESS (by Teams): That's
6 correct. Essentially, it -- it's an in and out and it
7 has been for Manitoba Hydro since I believe 2016.

8 MR. ANTOINE HACAULT: But, for
9 2022/2023, Manitoba Hydro, for the reasons you've
10 said, is exercising its discretion and taking out
11 nearly a quarter billion dollars of cash from its
12 operations to put in to the sinking fund, correct?

13 MR. AUREL TESS (by Teams): So, it's -
14 - it's not coming from Operations. Just to clarify,
15 this is -- this is money that's borrowed, that -- what
16 we're using as a hedge, potentially, given the level
17 of US exports.

18 MR. ANTOINE HACAULT: What we've just
19 shown in 2022/'23 that you retire as much debt as
20 you're borrowing.

21 MR. AUREL TESS (by Teams): No, but
22 you have to -- you have to combine that with the
23 statement that I've made earlier about the cash
24 balance in the previous year being borrowed funds
25 that's -- that's being utilized in 2022/'23.

1 MR. ANTOINE HACAULT: Now, the other
2 thing that the Corporation is doing in property,
3 plant, and equipment, it's going to increase its
4 spending by about a hundred million dollars, correct?

5 If we look at additions to property,
6 plant, and equipment, we go from \$777 million in the
7 forecast for 2021/'22, and we increase our spending by
8 about a hundred million to \$886 million, correct?

9 MR. AUREL TESS (by Teams): Yes.

10 MR. ANTOINE HACAULT: And even with
11 this increase of a hundred million in property, plant,
12 and equipment, and this extra quarter billion dollars
13 in the sinking fund, you're still left with \$592
14 million in cash -- that's the bottom right-hand number
15 -- correct?

16 MR. AUREL TESS (by Teams): Yeah,
17 again, we're bringing forward cash from a previous
18 year though. It's borrowed for that to bring that
19 balance to where it is.

20 MR. ANTOINE HACAULT: Now, I
21 understood that your testimony in this -- was at
22 page 266 of the transcript -- was that you'd need to
23 have at least six months of working capital available
24 to the Corporation, as far as liquidity.

25 Did I understand that right?

1 MR. AUREL TESS (by Teams): Yeah. And
2 I was referring to a period of time where -- where
3 you're in major -- you're doing a lot of major capital
4 investment, and that's -- that's the reason for the
5 policy for business continuity to maintain that
6 liquidity balance in those years. And -- and that's
7 actually the reason why you see it dropping off in
8 '22/'23.

9 And, as we've noted in our application,
10 we're moving from -- from a construction mode to an
11 operating or maintenance mode, and that comes through
12 clearly in our Capital Plan as well. So, that's the
13 reason for the -- it's kind of the reduction of the
14 cash on hand, given that -- that transition, if you
15 will, from construction to operating.

16 MR. ANTOINE HACAULT: Yeah. So, am I
17 getting this right? On this page, if I look "Cash
18 Provided by Operating Activities," on the right-hand
19 side, for '22/'23, we're expecting or budgeting for
20 \$778 million in cash, correct?

21 MR. AUREL TESS (by Teams): From
22 Operating Activities, that's correct.

23 MR. ANTOINE HACAULT: Yeah. And my
24 understanding of this table, if we go "Investing
25 Activities and Cash Needed for Investing Activities,"

1 it's close to the bottom, we see it's a billion eight-
2 five (85).

3 Do you see that, sir?

4 MR. AUREL TESS (by Teams): I do.

5 MR. ANTOINE HACAULT: So, am I right
6 in understanding this shor -- table that the cash
7 short-fall is about 300 million for the entire year,
8 as opposed to like a six (6) month metric?

9 MR. AUREL TESS (by Teams): The
10 348 million, that's needed for core operations. Just
11 to clarify.

12 I just need to know if you're referring
13 to the \$348 million we need to borrow for core
14 operations or are you referring to something else?

15 MR. ANTOINE HACAULT: Well, I'm
16 looking at your own document, sir. I see cash
17 provided by operating activities at 778 million -- are
18 you following me so far -- for '22/'23?

19 MR. AUREL TESS (by Teams): Right.
20 Okay.

21 MR. ANTOINE HACAULT: And then I'm
22 looking at all your investing activities, including
23 property, plant, and equipment, and tangible assets,
24 regulatory deferral, balances, all of this, and the
25 cash used for investing activities is 1 billion 85

1 million, correct?

2 MR. AUREL TESS (by Teams): That's
3 correct.

4 MR. ANTOINE HACAULT: And, sir, I
5 would suggest to you that, if we look at the very
6 bottom of this table, we see, for 2021/2022, that the
7 cash at the end of the year is 1 billion 121 million.
8 Do you see that?

9 MR. AUREL TESS (by Teams): I do.

10 MR. ANTOINE HACAULT: And you just
11 said that you -- that was basically borrowed money.
12 So there'd be a cost to carrying that cash, correct?

13 MR. AUREL TESS (by Teams): There is a
14 cost to it, yes.

15 MR. ANTOINE HACAULT: And that cost
16 for next year would be reduced because you'd only be
17 carrying \$592 million instead of the \$1.1 billion,
18 correct?

19 MR. AUREL TESS (by Teams): That's
20 correct.

21 MR. ANTOINE HACAULT: Now, sir, you'll
22 agree with me that in this hearing we haven't had a
23 chance to have the PUB rule on what might be
24 considered necessary expenses which is a test under
25 the legislation?

1 MR. AUREL TESS (by Teams): Just one
2 (1) moment please.

3 Could -- could you clarify what -- what
4 by that. Sorry, I don't...

5 MR. ANTOINE HACAULT: Yeah, I'm not --
6 maybe I'm assuming incorrectly.

7 Under the Manitoba Hydro Act, under
8 Section 39(1), there is an indication that the prices
9 payable for power supplied by the Corporation shall be
10 such as to return to it in the full cost to the
11 Corporation of supply and power, including the
12 necessary operating expenses, and it continues to
13 repairing, maintaining, etcetera.

14 We haven't had any evidence that has
15 been tested on what's a necessary expense, correct?

16 MR. AUREL TESS (by Teams): Well, I
17 did want to --

18 MR. ANTOINE HACAULT: Apart from --

19 MR. AUREL TESS (by Teams): Yeah.
20 Yeah, we've provided evidence in -- in the sense of if
21 we go back to the FT (phonetic) information that we've
22 provided, if you go back to our explanation of
23 business operation's capital that's -- that's used to
24 ensure system reliability, but I wouldn't agree that
25 there's been no evidence provided. That's not an

1 actual fact. I don't believe we've submitted --

2 MR. ANTOINE HACAULT: Yeah.

3 MR. AUREL TESS (by Teams): --

4 information in that regard.

5 MR. ANTOINE HACAULT: I wasn't

6 suggesting that. I was just suggesting that you --

7 there wasn't the opportunity to test it. Interveners

8 don't have the opportunity to provide evidence on that

9 issue and we aren't having a full hearing on whether

10 those expenses are, in fact, necessary or prudent.

11 Do you agree with that?

12 MR. AUREL TESS (by Teams): Just one

13 (1) moment.

14 MR. BRENT CZARNECKI (by Teams): Mr. -

15 - Mr. Hacault, it's Brent Czarnecki speaking.

16 We would agree that this is an interim

17 rate application and the onus is on a prima facie

18 case. I think what Mr. Tess is indicating is that we

19 have met that case with the information that we've

20 provided, and that, to your point, no, there hasn't

21 been a full testing, as we would see, if we were

22 applying for final rates. That's our understanding.

23 And I guess I would say that if there's

24 more to be added to this, that it should await final

25 argument.

1

2 CONTINUED BY MR. ANTOINE HACAULT:

3 MR. ANTOINE HACAULT: Thank you very
4 much, Mr. Czarnecki. I'll move on.

5 I don't think for the record I've
6 confirmed -- there is a page 40 of our Book of
7 Documents, it's MIPUG Exhibit 3, there was a June 9,
8 2021 letter from Manitoba Hydro to the PUB.

9 Could you confirm to the -- for the
10 record that, as CFO of Manitoba Hydro, you adopt the
11 contents?

12 MR. AUREL TESS (by Teams): Yes, I can
13 confirm that.

14 MR. ANTOINE HACAULT: And there's also
15 a July 9 letter that's part of our book of documents.

16 Can you also confirm that, as CFO of
17 Manitoba Hydro, you adopt the contents of that letter?
18 Sorry --

19 MR. AUREL TESS (by Teams): Yeah.

20 MR. ANTOINE HACAULT: -- I may have
21 misstated the date in July, but --

22 MR. AUREL TESS (by Teams): June 9th?
23 Sorry, June 9th?

24 MR. ANTOINE HACAULT: No. It was June
25 9, and then there was a July letter, sorry. I didn't

1 make a note of the specific date, and this shows my
2 inability to remember specific dates. It was either -
3 - I'll get it.

4

5 (BRIEF PAUSE)

6

7 MR. ANTOINE HACAULT: It was July 6 of
8 2021. It was tab 9 of our book of documents.

9 For the record, as CFO of Manitoba
10 Hydro, do you adopt the contents of that letter?

11 MR. AUREL TESS (by Teams): I do.

12 MR. ANTOINE HACAULT: Thank you. Now,
13 I'm hoping none of this will require further
14 explanation.

15 In a general way, by July 2021,
16 Manitoba Hydro knew that there were low water
17 conditions caused by a drought, correct?

18 MR. AUREL TESS (by Teams): That is
19 correct. I -- I think I'll ask Mr. Gawne just to
20 confirm that.

21 MR. KEVIN GAWNE (by Teams): Thanks.
22 I -- I believe we -- we were certainly monitoring
23 conditions leading up to that date, but mid-July is
24 when our operations began -- became governed by energy
25 reliability.

1 MR. ANTOINE HACAULT: Okay. And by
2 August of 2021, Manitoba Hydro was of the view that
3 water conditions had not improved?

4 MR. KEVIN GAWNE (by Teams):
5 Essentially, we were still operating in the same mode
6 of protecting for a continued drought, so I think yes
7 would be a fair answer to that.

8 MR. ANTOINE HACAULT: Okay. And, Mr.
9 Tess, could you confirm that, prior to September of
10 2021, no recommendation was made to Manitoba Hydro-
11 Electric Board that Manitoba Hydro apply for rate
12 relief from the PUB?

13 MR. AUREL TESS (by Teams): I -- I can
14 confirm that there was a directive received from --
15 from the province, and then that was the directive
16 that -- that we apply for the interim rate and work
17 with the PUB on the multi-year rate application. I
18 believe that was in September.

19 MR. ANTOINE HACAULT: But until that
20 directive -- I just want to make sure the record's
21 clear, and that was the directive on September 22 of
22 2021 -- to your knowledge, none of the senior
23 management or executive recommended to the Manitoba
24 Hydro-Electric Board that Manitoba Hydro apply for
25 rate relief from the Public Utilities Board?

1 MR. AUREL TESS (by Teams): Not to my
2 knowledge, no.

3 MR. ANTOINE HACAULT: Now, this is at
4 page 111 of the PDF of our book of documents. It's a
5 July 8, 2021, news release indicating there would be -
6 - or the intention was to implement three (3)
7 consecutive rate increases of 2.5 percent for the
8 years 2021, 2022, and 2023.

9 My question is: Was Manitoba Hydro
10 consulted prior to the announcement of this proposed
11 rate increase?

12

13 (BRIEF PAUSE)

14

15 MR. AUREL TESS (by Teams): Just one
16 (1) moment, please.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): So as you
21 know, we had an approved budget effective October 1.
22 The government was aware of that, of course, but in
23 terms of your questions, I -- I can't get into the
24 details.

25 Essentially, we were advised of the 2

1 1/2 percent just prior to -- it was a policy decision
2 I believe of government, and I'd rather not get into
3 the details of that 'cause I -- I'm not privy to them
4 actually.

5 MR. ANTOINE HACAULT: Okay. I'm not
6 asking you to get into policy, but you were advised of
7 the 2.5 percent prior to the announcement.

8 Is that what I'm gathering from your
9 answer?

10 MR. AUREL TESS (by Teams): Just prior
11 to the announcement, that's correct.

12 MR. ANTOINE HACAULT: Yeah. And I
13 gather from your answer that Manitoba Hydro wasn't
14 asked whether it could live with these proposed
15 increases?

16 MR. AUREL TESS (by Teams): Not to my
17 knowledge.

18 MR. ANTOINE HACAULT: Now, did senior
19 management consider how Manitoba Hydro would need to
20 operate in order to live with these three (3)
21 consecutive three (3) -- 2.5 percent rate increases
22 when Manitoba Hydro was facing a drought?

23 MR. AUREL TESS (by Teams): Well, I
24 think at the time -- so you're talking about the July
25 time frame. So I -- I'd probably look to Mr. Gawne to

1 -- to speak about the -- the chance of recovery from -
2 - from the drought at that point.

3 We certainly were not in the same
4 position then, in July, as we were in October when the
5 -- the range of possibilities and possible flow
6 conditions had narrowed considerably. But maybe I'll
7 ask Mr. Gawne to comment on that further.

8 MR. KEVIN GAWNE (by Teams): Yeah.
9 Mid-summer, there's still uncertainty as to the water
10 conditions for the remainder of the year, as we've
11 seen. We've had recoveries in water late in the
12 summer and in the fall. Examples were in 2018 and
13 2019.

14 So still mid-summer we were projecting
15 a range of -- of outcomes for the remainder of the
16 year. As it turned out, it was -- it was extremely
17 dry in -- in that time frame following, and we are at
18 where we are now.

19 MR. ANTOINE HACAULT: Okay. I'll ask
20 the question in a broader way.

21 Prior to receiving the directive on
22 September 22 of 2021, did senior management at
23 Manitoba Hydro consider what would be needed in order
24 to operate and live within three (3) consecutive 2.5
25 percent rate increases? And clearly by that time,

1 Manitoba Hydro knew it was facing a drought.

2 MR. AUREL TESS (by Teams): Just one
3 (1) moment, please.

4

5 (BRIEF PAUSE)

6

7 MR. ANTOINE HACAULT: I think I need
8 to stand up and do some exercises to wake myself up
9 and everybody else. I'm putting everybody to sleep.

10

11 (BRIEF PAUSE)

12

13 MR. AUREL TESS (by Teams): So there
14 was a couple of considerations. Once we knew the full
15 extent of the drought, had we been in a situation
16 where, you know, if -- if government was considering
17 setting the rate still -- I'm speculating here -- we
18 would have -- we would have probably had to go back to
19 the province to further discuss the impacts of the --
20 of the drought once they were fully known.

21 And the other thing that was -- was
22 happening at the time is we were developing our -- our
23 2022/'23 plan along with the -- you know, the energy -
24 - Enterprise Plan and Strategy 2040. So that was in
25 the works as well, so we wouldn't have had all the

1 details that we're presenting to you now.

2 MR. ANTOINE HACAULT: Well, my
3 question was, sir: Did you or the senior management
4 team consider what you would need to do for Manitoba
5 Hydro to live with those three (3) consecutive 2.5
6 percent rate increases?

7 It seems to me, and this is just an
8 editorial comment, that prudent management at senior
9 level, you know, by -- prior to September '22 there
10 would have been some kind of a consideration as to
11 what you needed to do to live with 2.5 percent rate
12 increases.

13 Are you saying that --

14 MR. AUREL TESS (by Teams): Well --
15 well, that was --

16 MR. ANTOINE HACAULT: -- there's no
17 contingency plan?

18 MR. AUREL TESS (by Teams): No, that's
19 not what I'm saying. I'm saying that was the latter
20 part of my response. I don't know if you caught that
21 last part.

22 We were working through the '22/'23
23 preliminary plan at the time, that that was still not
24 final at the time, and -- and looking at all of those
25 considerations at the time.

1 MR. ANTOINE HACAULT: So, how were you
2 proposing to amend that plan if you needed to live
3 with 2.5 percent rate increases? Were you just going
4 to borrow more money or were you going to change the
5 way you operated Manitoba Hydro for the next three (3)
6 years?

7 MR. AUREL TESS (by Teams): Well,
8 again, we hadn't completed that work. It was -- it
9 was really underway at the time that -- you know, that
10 the 2 1/2s had come out. And we weren't in a position
11 yet to -- to examine the full impact.

12 Plus, we didn't know the full impact of
13 the drought, as -- as we stated previously.

14 MR. ANTOINE HACAULT: Getting back to
15 my question: Are you suggesting that there were no
16 considerations of cost cutting or borrowing on how you
17 were going to deal with 2.5 percent increases?

18 Was it just that general, that you were
19 considering things but you hadn't given any serious
20 thought as to what you were going to do to live with
21 2.5 percent rate increases?

22 MR. AUREL TESS (by Teams): I think
23 the way you're characterizing it is -- is quite
24 misleading. Like I said to earlier, we were working
25 on this information. We were going through our

1 business unit plans at the time, looking at all
2 alternatives at the time; we just hadn't finished the
3 work, so.

4 But to say that we weren't considering
5 it is not accurate, so I don't agree with that.

6 MR. ANTOINE HACAULT: Okay. Was it
7 the view of Manitoba Hydro that it could live with the
8 2.5 percent rate increases absent the effect of the
9 drought?

10 MR. AUREL TESS (by Teams): I think
11 you're asking the same question in a different way,
12 and I'm giving you the -- I'll give you the same
13 response.

14 We were still working on -- on the
15 details of our '22/'23 plan and considering the
16 impacts of -- of everything, not just the 2 1/2, but
17 all the information that we have to gather up to
18 develop that plan.

19 MR. ANTOINE HACAULT: I'll put the
20 question in a different way. Did anybody at the
21 senior management say absolutely not, we can't live
22 with 2.5 percent rate increases, in -- excluding the
23 effects of the drought?

24 MR. AUREL TESS (by Teams): So, I'll
25 have to give you the same response. We were still

1 working through all the details of our financial plans
2 at the time, so it's really a timing thing that we're
3 talking about.

4 And even when we submitted our '22/'23
5 plan as part of the rate application, it still hadn't
6 been approved by the Board. So, if I was to speculate
7 at the time of July, I would be purely speculating on
8 the financial impacts, on how we would manage through
9 those with 2 1/2 percent with not having all the data
10 to provide to our Board or to the Public Utilities
11 Board.

12 MR. ANTOINE HACAULT: Am I taking your
13 answer, sir, to then confirm that prior to September
14 22, 2021, Manitoba Hydro, at a senior management
15 level, did not indicate to the government that it
16 couldn't live with 2.5 percent rate increases for
17 three (3) consecutive years?

18 That communication to government did
19 not occur, that you couldn't live with that?

20 MR. AUREL TESS (by Teams): Just one
21 (1) moment.

22 MR. BRENT CZARNECKI (by Teams): Mr. -
23 - Mr. Chairman, I've been incredibly patient as Mr.
24 Hacault has gone down this line of questioning. Mr.
25 Tess has tried to answer it several times in the same

1 way. And I do note that it is -- he has noted, as
2 well, that there's much speculation here.

3 I'm not sure at this point how much
4 more he's going to add to it. We know that the 2 1/2
5 percent is not what we're considering today, so I'm
6 speculating. And, also, I'm questioning relevance at
7 the end of the day in this line of questioning.

8 So, I'm going to ask for you to maybe
9 consider this objection and have Mr. Hacault move on.

10 MR. ANTOINE HACAULT: Well, the reason
11 I'm asking is, if they could live with 2.5 percent
12 rate increases absent the drought, and that was under
13 consideration, and nobody at Manitoba Hydro said that
14 they couldn't live with it, it's informative for this
15 Board to know what Hydro can live with.

16 And if it could live with 2.5 percent
17 rate increases and wasn't concerned about doing that
18 for three (3) consecutive years, then it seems to me
19 it's relevant to the Board to know that.

20 MR. BRENT CZARNECKI (by Teams): And -
21 - and with -- with respect -- and, again, Mr.
22 Chairman, Mr. Tess has answered that, saying that
23 things were moving and changing and there was plans
24 that were being developed for -- for next year's
25 budget.

1 was a different one. It was whether or not anybody at
2 Manitoba Hydro ever explained to the government that
3 it could not live with 2.5 percent. And if it didn't
4 do it, it's a simple answer, yes, or, no.

5 THE CHAIRPERSON: Well --

6 MR. ANTOINE HACAULT: The reasons, I
7 don't care.

8 THE CHAIRPERSON: You know, I guess
9 you can ask Mr. Tess whether he spoke to Manitoba
10 Hydro -- to the government. I'm not sure he can say
11 whether anybody ever spoke to Manitoba Hydro. So, I'm
12 not sure if Mr. Tess is -- is aware of all discussions
13 between everybody at Manitoba Hydro or -- or the CEO
14 of Manitoba Hydro.

15 But if you want to ask him if -- if he
16 had discussions with Manitoba Hydro, subject to Mr.
17 Czarnecki objecting to it, you can ask him.

18

19 CONTINUED BY MR. ANTOINE HACAULT:

20 MR. ANTOINE HACAULT: Mr. Tess, could
21 you please respond whether you or, to your knowledge,
22 anybody at -- just to your knowledge, anybody at
23 Manitoba Hydro ever communicated to the province that
24 it couldn't live -- could not live with the 2.5
25 percent rate increases?

1 MR. AUREL TESS (by Teams): Just one
2 moment.

3

4 (BRIEF PAUSE)

5

6 MR. AUREL TESS (by Teams): I -- I can
7 answer that. We have had discussions with the
8 government with regard to the 3.5 percent. That was
9 our position in the '21/'22 budget. It continues to
10 be our position.

11 I think it's a well documented fact
12 that we've been needing this 3 1/2 percent since, I
13 believe, 2009. Those were the centre of the
14 discussions that we did have with the government.

15 To my recollection, there was no
16 discussions about how we can live with the 2 1/2
17 percent or any measures to be taken. I have no
18 knowledge of that, so.

19 And, as Mr. Czarnecki mentioned, the
20 situation today is that we have the drought impact to
21 deal with. We have the '22/'23 plan that's before you
22 that includes the 3 1/2 percent, plus the 1.5 percent
23 for the drought. To me, that is the more relevant
24 topic that you should be zeroing in on.

25 And I don't mind taking questions on

1 that. And I'm just -- that -- that's what I can --
2 that's what I can answer for you, Mr. Hacaault.

3 MR. ANTOINE HACAULT: Okay. Thank
4 you. I'll move on to one (1) last area of
5 questioning. Go to page 114 of MIPUG 3.

6 This is the presentation to DBRS and my
7 understanding, from your previous answer, is that you
8 were present during that presentation to DBRS,
9 correct?

10 MR. AUREL TESS (by Teams): Correct.

11

12 (BRIEF PAUSE)

13

14 MR. AUREL TESS (by Teams): Oh, yes,
15 sorry. I must have been muted. I was present. I was
16 actually on holidays, but I phoned in.

17 MR. ANTOINE HACAULT: You were aware
18 of the contents of the presentation prior to it being
19 made, correct?

20 MR. AUREL TESS (by Teams): Yes. Yes.

21 MR. ANTOINE HACAULT: And are you also
22 aware, sir, of the assumptions that go into the
23 financial target illustrations in that document?

24 MR. AUREL TESS (by Teams): It --
25 generally, yes. I couldn't speak to the exact

1 assumptions that were in that version of that
2 scenario. But that's correct.

3 MR. ANTOINE HACAULT: But you --
4 you'll agree with me that there would have been
5 assumptions on short- and long-term interest?
6 Correct?

7 MR. AUREL TESS (by Teams): That's
8 correct.

9 MR. ANTOINE HACAULT: There would have
10 been assumptions on short- and long-term operating
11 expenses, correct?

12 MR. AUREL TESS (by Teams): Yes.

13 MR. ANTOINE HACAULT: There would have
14 been assumptions on short- and long-term export prices
15 and volumes, correct?

16 MR. AUREL TESS (by Teams): That's
17 correct.

18 MR. ANTOINE HACAULT: There would have
19 been assumptions on short- and long-term capital
20 expenses including major capital, if any, correct?

21 MR. AUREL TESS (by Teams): Yes.

22 MR. ANTOINE HACAULT: There would have
23 been assumptions on short- and long-term investments
24 and property, plant and equipment to the extent not
25 covered by my previous sentence, correct?

1 MR. AUREL TESS (by Teams): Correct.

2 MR. ANTOINE HACAULT: There would have
3 been assumptions and analysis on the diversity now
4 afforded with the new access to a greater American
5 export market with the Manitoba Minnesota transmission
6 line, correct?

7 MR. AUREL TESS (by Teams): Just one
8 (1) moment, please.

9

10 (BRIEF PAUSE)

11

12 MR. AUREL TESS (by Teams): So in
13 terms of the assumptions you're mentioning, as I had
14 said earlier, I am generally aware of the assumptions
15 that go into this type of scenario development.

16 However, I just want to reiterate to
17 the Board, this was a scenario with one (1) possible
18 rate trajectory that was included in a presentation
19 for the purpose of -- not for rate setting -- for the
20 purpose of a scenario development to -- essentially,
21 that was covered under looking at a possible rate path
22 to achieve a target under Bill 35, which was still
23 something that was being considered from a policy
24 perspective and a legislative perspective at the time.

25 And all the caveats that I've talked

1 about earlier were provided to the credit rating
2 agencies. We've talked about this in terms of the
3 presentation. Mr. Hacault, you've seen the -- the
4 missing pieces. This essentially is not a complete
5 forecast. IRP impacts, the impact of energy policy is
6 not included.

7 I would characterize it as an
8 incomplete scenario in that regard, missing those key
9 pieces of information.

10 MR. ANTOINE HACAULT: Okay. I'll
11 continue just as to the assumptions. My question was:
12 Did it take into consideration the diversity now
13 afforded with new access to a greater American export
14 market with the Manitoba-Minnesota transmission line?
15 I would think it's yes, but...

16 MR. AUREL TESS (by Teams): Just one
17 (1) moment.

18

19 (BRIEF PAUSE)

20

21 MR. AUREL TESS (by Teams): So you're
22 getting into a level of detail that I don't
23 necessarily have or am familiar with.

24 But I think if you look at the
25 presentation, there was a presentation on export

1 revenues, dependable export revenues. So -- so those
2 assumptions regarding those were obviously included.

3 And as -- as you mentioned, I believe
4 the -- the tie line to -- to the United States for the
5 Minnesota transmission line would have been in there.

6 MR. ANTOINE HACAULT: Okay. And there
7 would have been assumptions with respect to a system
8 capacity built into the projection, correct?

9 MR. AUREL TESS (by Teams): Yes. But,
10 again, you're -- you're venturing into a level of
11 detail that I just am not that familiar with.

12 MR. ANTOINE HACAULT: And there would
13 have been assumptions on short- and long-term growth
14 and domestic requirements for capacity and for energy
15 built into those projections, correct?

16

17 (BRIEF PAUSE)

18

19 MR. AUREL TESS (by Teams): One (1)
20 moment, please.

21

22 (BRIEF PAUSE)

23

24 MR. AUREL TESS (by Teams): So you're
25 referencing a number of assumptions just to make it

1 clear that -- that this information was not presented
2 to our Board of Directors. I think I've indicated
3 that in -- in this testimony in the past.

4 So I have to make it clear that this is
5 a scenario that wasn't prepared for rate-setting
6 purposes. It was one (1) scenario for -- to present
7 to the credit rating agencies with all the caveats
8 we've talked about.

9 MR. ANTOINE HACAULT: I acknowledge
10 that and I acknowledge it in starting this
11 questioning, sir.

12 But I'd like an answer as to whether or
13 not, underlying these calculations, there would have
14 been short- and long-term growth in domestic
15 requirements for capacity and energy built into this -
16 - these projections.

17 I would think the answer is yes, but I
18 don't think you can make those calculations without
19 doing that.

20 MR. AUREL TESS (by Teams): Yes.

21 MR. ANTOINE HACAULT: And, finally,
22 built into these calculations, there would have been
23 short- and long-term estimates of fuel and power
24 purchases, correct?

25 MR. AUREL TESS (by Teams): That's

1 correct.

2 MR. ANTOINE HACAULT: And then, in
3 answering some questions of Mr. Williams -- and I'm
4 nearly finished, you'll be glad to know -- you've
5 referenced interest rate risk. If we could go to page
6 130 of our book of documents.

7 You'll confirm that the presentation to
8 the debt rating agencies -- and it's the same slide in
9 each of the presentations -- shows no new debt
10 financing requirements forecasted as of 2024.

11 Again, understanding that, by August
12 25, 2021, at the time this report is being made, you
13 don't have full knowledge of the drought conditions.

14 MR. AUREL TESS (by Teams): That's
15 correct. The scenario also -- yeah, it does assume
16 that the 2.5 percent effective -- I believe it was
17 October 1, at the time -- that was the best
18 information we had at the time.

19 MR. ANTOINE HACAULT: Did you get any
20 questions on, when you spoke to DBRS, as to the impact
21 of the 2.5 percent rate increases over the next three
22 (3) years, which is shown on the slides in your
23 presentation?

24 MR. AUREL TESS (by Teams): Just one
25 (1) moment, please.

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: It's on slide
4 25. So I think it's page 138.

5

6 (BRIEF PAUSE)

7

8 MR. ANTOINE HACAULT: Of the PDF of
9 our book of documents.

10 For the record, while you're
11 considering this -- the slide indicates that, on July
12 8, 2021, the Manitoba Government announced their
13 intention to include 2.5 percent rate increases on the
14 1st of December and each of 2021, 2022, and 2023 as
15 part of the proposed legislation.

16 Did you get any questions on that
17 point, sir?

18 MR. AUREL TESS (by Teams): Sorry, I
19 was just trying to answer your previous question and
20 get some information on it. I missed another
21 question?

22 MR. ANTOINE HACAULT: No, it's the
23 same question.

24 MR. AUREL TESS (by Teams): Okay.

25 MR. ANTOINE HACAULT: Did you get any

1 questions on this point?

2 MR. AUREL TESS (by Teams): I don't
3 believe we got specific comments from -- from DBRS.
4 However, Moody's who has a -- a little different setup
5 for reviewing -- they have a specific utility analyst
6 -- did make a comment to us about -- about the rate
7 trajectory and historically not achieving those.

8 And -- as one of the reasons -- I think
9 they put in their report that as one of the reasons
10 why we have of the worst metrics in the country.

11 But we can assess the comparison for
12 Manitoba Hydro compared to other utilities. That's in
13 our application. And we have the worst debt-to-equity
14 ratio in the country. I think, as you saw in our
15 application, much worse than the other Crown
16 utilities.

17 We also have -- in terms of cash flow -
18 - cash flow to debt, our situation has deteriorated
19 since '09. Hit bottom in 2018. That's reported by
20 DBRS cashflow-to-debt ratio on page 27 of our
21 application.

22 MR. ANTOINE HACAULT: So am I to
23 summarize that DBRS did not question or express any
24 concerns with respect to the 2.5 percent rate
25 increases in 2021, 2022, and 2023?

1 Is that right, sir?

2 MR. AUREL TESS (by Teams): To my
3 recollection, that's correct. Yeah.

4 MR. ANTOINE HACAULT: Okay. Thank
5 you, sir, for having answered my questions to the best
6 of your ability. Thank you to the panel. Thank you
7 to everyone involved. Those -- that completes my time
8 for asking questions.

9 THE CHAIRPERSON: Thank you. I would
10 just note for the record that credit rating reports
11 were not in scope.

12 We're going to break for fifteen (15)
13 minutes, and then we'll reconvene and see if the panel
14 has any questions. Thank you.

15

16 --- Upon recessing at 3:12 p.m.

17 --- Upon resuming at 3:32 p.m.

18

19 THE CHAIRPERSON: Okay. We're going
20 to proceed with questions by the -- by the panel. And
21 I'd ask Mr. McCutcheon if he has a panel for Mani -- a
22 panel -- a question for Manitoba Hydro.

23 BOARD MEMBER MCCUTCHEON (by Teams): I

24 --

25 THE CHAIRPERSON: Sorry. Before I --

1 Shawn, sorry to --

2 BOARD MEMBER MCCUTCHEON (by Teams):

3 No problem.

4 THE CHAIRPERSON: -- interrupt.

5 Before we do that, because I'm going to forget, Mr.

6 Czarnecki, are you on?

7 MR. BRENT CZARNECKI (by Teams): I'm

8 here --

9 THE CHAIRPERSON: Mr. Czarnecki?

10 MR. BRENT CZARNECKI (by Teams): I'm

11 here, Mr. Chairman.

12 THE CHAIRPERSON: Thank you. Mr.

13 Czarnecki, I was asked to ask you: Do you have any

14 idea when your written submission will be available

15 tomorrow morning? We're trying to figure out where

16 the panel members will be and -- in order to read it,

17 so.

18 MR. BRENT CZARNECKI (by Teams): Mr.

19 Chairman, our current intention is to have a

20 PowerPoint presentation which we will speak to. So I

21 --

22 THE CHAIRPERSON: Okay.

23 MR. BRENT CZARNECKI (by Teams): --

24 don't think you're going to receive a twenty (20) page

25 written submission like you may otherwise. So it will

1 be a PowerPoint presentation, and the best I could do
2 is try to get it to you as soon as possible, before
3 one o'clock.

4 THE CHAIRPERSON: Yeah. Okay. Thank
5 you. Sorry, Mr. McCutcheon. Can you proceed with
6 your question.

7 BOARD MEMBER MCCUTCHEON (by Teams):
8 Yes. Thank you, Mr. Chair.

9 The evidence that we've had over the
10 last two (2) days of testimony seems to be -- I -- I
11 understand it on the basis of increased revenue and
12 also the need to borrow money because of the
13 significant shortfall in cashflow.

14 The one (1) question I have -- and I
15 know Mr. Williams did talk about it today, but without
16 the benefit of being able to read the transcription
17 tonight before I ask this question -- is on the
18 expense side of the equation.

19 Would I be correct in saying that, by
20 the time the drought was recognized as not being --
21 was not going to end this year, probably the ability
22 for Manitoba Hydro to make any significant changes,
23 either on the business operating capital or on the O&A
24 side, were limited? But we heard quite a bit of
25 evidence today, testimony today, that the -- the

1 concern about continuing drought is certainly front
2 and centre; there's nothing that's happened in the
3 last few months that show that the drought is over.

4 So my question is: If we are dealing
5 with something similar when Manitoba Hydro starts
6 their new fiscal year on April 1, will there have been
7 work done this winter prior to the start of that new
8 year to look at that side of it, that it won't just be
9 trying to increase revenue and increase borrowings,
10 but actually expense mitigation will be part of a
11 strategy moving forward, if -- if the drought doesn't
12 end in the next fiscal year?

13 MR. AUREL TESS (by Teams): Thank you
14 for the question. So I can commit to we're moving
15 into our next phase of Enterprise planning. We just
16 completed this budget year. We're moving into the
17 next year almost immediately, commencing in the new
18 calendar year. So of course considerations like the -
19 - the impact of the drought will be taken into
20 account; any mitigation that we can do.

21 I think when you do see our strategy,
22 you'll be pleased to see that one (1) of our pillars
23 is to keep costs as low as possible for Manitobans.
24 So that -- that's something that we will be following
25 in -- in the Enterprise Plan for the next budget year

1 and beyond.

2 So, yes, that it is the answer, that we
3 would be pursuing those -- those impacts.

4 Having said that, we -- we are going
5 through the period, as you saw, with the lowest FTE
6 level in -- in the history -- twenty -- the last twenty
7 (20) years and have a number of uncontrollable costs
8 as well. So -- but we will be of course looking at
9 anything that -- that can be -- can be impacted
10 without -- without impairing our liability or -- or
11 system asset aging. And we are really hesitant to
12 take on additional risk in terms of reducing costs
13 that will simply cost us more in the long run.

14 BOARD MEMBER MCCUTCHEON (by Teams):
15 Thank you, Mr. Tess.

16 That's my -- my only question, Mr.
17 Chair. Thank you.

18 THE CHAIRPERSON: Thank you. Dr.
19 Grant...?

20 BOARD MEMBER GRANT: Thanks. I think
21 this question is for Mr. Gawne. And I'd preface it by
22 saying that, before the hearings, I would describe my
23 own state of knowledge on hydrology as confused. And
24 I think now I would describe it as more confused, so I
25 want to see if you can help you here.

1 I think I heard you say at one (1)
2 point -- and this is probably with respect to the
3 preliminary '22/'23 forecast -- that you think there's
4 an equal probability of any one (1) of the last forty
5 (40) year flow levels -- I want to use the word pre --
6 'precipitation' -- any one (1) of them is just as
7 likely as the other; in which case I hear you saying
8 that the outcome is purely random.

9 And then I think it was in the context
10 of MFR-17 you invited us to look at the chart and see
11 a cyclical pattern in it over the last forty (40) year
12 flow level, which, to my mind, would suggest some sort
13 of ARIMA (phonetic) sequence or something more
14 sophisticated in statistics.

15 And then you said in the context of
16 this same chart that, if you really eyeball it
17 closely, you'll see that one (1) low-flow year, the
18 likelihood of another low-flow year following it is --
19 is greater than the normal probability, so -- which to
20 my mind then suggests some sort of random walk is
21 going on in this data.

22 So with all of that said -- and let's
23 throw -- in addition, we don't know if there's a trend
24 line that's going on in this data as well -- can you
25 please tell me that Manitoba Hydro does something a

1 bit more sophisticated in trying to estimate next
2 year's precipitation level than just holding up charts
3 to the window to see patterns.

4 Is there some -- some sort of time
5 series analysis that you've conducted to try to
6 understand this aspect of hydrology?

7 MR. KEVIN GAWNE (by Teams): Okay.
8 There was a few questions in there and I'll try to
9 break it down and answer them.

10 Sir, I believe you had stated that we -
11 - I think or we think there is an equal probability.
12 The financial forecast or the budget preliminary plan
13 for '22/'23 assumes that flows in the spring can
14 transition to any one (1) of those forty (40) years,
15 okay? So that's the basis for the budget.

16 But as I've -- when I walked through
17 this slide earlier -- and clearly, when you're in a
18 dry year, there's a better chance the following year
19 will be a dry year. So I'm -- the likelihood of
20 drought continuing when in a drought is -- is higher
21 than if you're not starting in a drought.

22 But for the purposes of the financial
23 forecast for next year, we -- we've assumed we're
24 transitioning to any one (1) of those. And the
25 problem is we don't have necessarily the science to be

1 able to adjust the flow record for next year this far
2 out into the future.

3 So, I'm just -- we're just setting out
4 what the assumptions were under the '22/'23
5 preliminary plan. And then what I'm saying is we need
6 to be aware that there is a greater likelihood that
7 we're going to fall on the dry side of that range that
8 we've provided underlying the -- the budget.

9 So, maybe if I could ask if that's the
10 distinction between assuming -- what we're assuming
11 for next in preparing the budget versus what we
12 believe is to be the likelihood? Did I -- did I
13 address that for you?

14 BOARD MEMBER GRANT: If -- if I could
15 paraphrase, it seems to me you're saying we made
16 Assumption A, and we don't think Assumption A is very
17 valid.

18 Would that be correct?

19 MR. KEVIN GAWNE (by Teams): We made
20 Assumption A, and we're suggesting Assumption A could
21 be modified but we -- in the time line that we had to
22 prepare the preliminary budget to -- to meet this
23 application and to want to be consistent in our
24 assumptions about the second year that far out into
25 the future, with past practice where, for example,

1 we've been a flood and we've said, listen, we don't
2 know what next year's going to bring us exactly, so we
3 haven't assumed a flood's going to continue. And
4 we've defended that decision in our assumptions.

5 So, it's -- I'm not saying it's a bad
6 assumption. What I'm saying is that these were the --
7 this is the assumption that's behind the preliminary
8 plan. We've accounted for the fact that we'll start
9 the year with below average water supply in -- in
10 storage and -- and we transition to these one (1) of
11 forty (40) flow years in the spring. That's based on
12 some statistical transition, without getting into
13 detail. So, there is -- there is a period where we
14 need to recover from the base flows that we have now
15 through the spring to each one (1) of these forty (40)
16 years.

17 To answer your question about have we
18 done trend analysis and long-term statistical
19 analysis; yes, that work has -- has been done and
20 continues to be looked at certainly by Manitoba Hydro.

21 I'll have to look up the -- the IR. It
22 was a Coalition IR from '17/'18 where we discussed
23 trend analysis and looking at historic hydrologic
24 data.

25 But to look at -- or to discuss where

1 we are now and where we're going in the future, we
2 have, you know, a team of experts in hydrology and
3 climate science working hard on this issue for sure.
4 The reality is long range flow forecasting is not a
5 very certain science, so to be able to predict flows
6 that may occur in the summer of '22/'23, when we're
7 sitting in October, is -- is a very difficult
8 exercise, and the modelling just isn't there yet.

9 Could I just -- yeah, sorry --

10 BOARD MEMBER GRANT: I --

11 MR. KEVIN GAWNE (by Teams): -- go
12 ahead.

13 BOARD MEMBER GRANT: No, that's fine.

14 If you're -- I was ready to move on and -- but --

15 MR. KEVIN GAWNE (by Teams): Well, the
16 hydrology --

17 There is -- you know, there is -- there
18 is a lag-1 correlation, if you want, between a current
19 year's hydrology and next year's hydrology. It's a
20 statistically significant, sorry, correlation that
21 exists. It -- it varies depending on what basin we
22 are in. The Churchill River basin has more memory
23 than other parts of the system.

24 So we do look at these things. But to
25 -- to predict and -- and adjust our flow record for

1 '22/'23, when we're sitting in October of '21, is --
2 is a difficult thing to do.

3 BOARD MEMBER GRANT: Okay. I was just
4 going to ask a couple quick things of Mr. Tess.

5 And -- and just on several occasions,
6 sir, you mentioned the cons -- Hydro's consistency in
7 asking for 3.5 percent, I think you said, back to
8 2009. But would it be correct to say that Hydro has
9 asked for at least 3.5 percent since 2009?

10 MR. AUREL TESS (by Teams): I think
11 that's correct. I believe at one (1) point it was a
12 little higher than that, but that's an accurate
13 statement in my mind, yes.

14 BOARD MEMBER GRANT: Because I think,
15 you know, seven point nine (7.9) comes to mind as
16 being a different -- but I take your point, if it is
17 that the utility has consistently has asked for 3.5 or
18 greater. I -- I understand your point.

19 And -- and I guess the last one -- and
20 I'm not sure I'm treading on inappropriate ground here
21 -- but having raised the issue of debt-equity ratio
22 and financial metrics, I do think and -- and in -- in
23 -- give the Coalition's question this morning about
24 the evidence of Morrison Park, I think it goes
25 directly to the evidence presented in the application

1 which looked at different utilities and drilled down a
2 little bit into the nature of Manitoba Hydro and what
3 financial metrics were appropriate to a utility of its
4 sort.

5 So, I think it would behove the Utility
6 to look at that evidence.

7 MR. AUREL TESS (by Teams): Yes, thank
8 you. We'll -- we'll certainly take -- take that into
9 consideration.

10 Looking at -- at performance indicators
11 is something that the Utility is also currently
12 engaged in; not just debt-equity, not just financial
13 indicators, I should say, but other types of financial
14 indicators that we can use to -- to gauge our
15 performance against and measure our -- our success, if
16 you will, going forward.

17 So that work is underway. We expect to
18 complete it by spring/summer of the calendar -- next
19 calendar year.

20 BOARD MEMBER GRANT: Great. That'd be
21 great. Thank you.

22 THE CHAIRPERSON: Oh, okay. Mr. Tess,
23 sorry, I've got a few questions.

24 I guess just picking up on what Dr.
25 Grant said. I -- the concern I always have with these

1 comparisons, is that -- and statements about
2 Manitoba's -- Manitoba Hydro's financial position is
3 we're -- to some degree, we're comparing corporations
4 that have different histories and different sizes.
5 So, for example, Manitoba Hydro doubled its asset
6 base, but you compare it -- when you compare it to
7 Quebec Hydro, Quebec Hydro has mature assets.

8 Is that correct?

9 MR. AUREL TESS (by Teams): Just one
10 (1) moment, Mr. Chairperson.

11

12 (BRIEF PAUSE)

13

14 MR. AUREL TESS (by Teams): I do take
15 your point that -- that it is sometimes challenging to
16 compare utilities that are in different places. You
17 know, for example, BC Hydro is one that I believe just
18 completed Site C (phonetic), a major capital project
19 similar to our completion of Keeyask that's nearly
20 complete, but -- but they do have a lower debt level
21 than Manitoba Hydro.

22 So, it's -- you know, you can look at
23 those kinds of benchmarks and sort of see what the
24 differences might be to try to ascertain if there are
25 significant differences.

1 We can look at Nellcor (phonetic). I
2 think they had an equity injection, for example.

3 So, there's different circumstances for
4 sure and -- so I take your point, in that regard.

5 THE CHAIRPERSON: Well, I will give
6 you a warning.

7 MR. AUREL TESS (by Teams): Yeah.

8 THE CHAIRPERSON: Site C hasn't
9 started. They've done the planning. They're still
10 waiting for cabinet approval to go ahead. Site C is
11 years away from being completed and I -- and I -- if
12 it -- if it goes ahead.

13 And I suspect that, if it does go
14 ahead, their debt-equity level is not going to be the
15 same as it is now, but it -- I mean, site C is not as
16 big as -- as Keeyask in relation to their overall --
17 their overall corporate activities.

18 So, that -- that's the issue I'm
19 concerned about. And, you know, NB Power isn't part
20 of the analysis; their -- their equity level is
21 considerably lower than the rest.

22 So, I -- I'd be really interested in
23 seeing a comparison for the GRA, but we need to be
24 very careful when -- when these are -- these are
25 thrown around.

1 MR. AUREL TESS (by Teams): Sorry, did
2 you hear me? I apologize. I may have been on mute.

3 THE CHAIRPERSON: Yes. No, I didn't
4 hear you.

5 MR. AUREL TESS (by Teams): Oh, yeah,
6 I have to subject-to-check that. I -- but that's my
7 understanding, Mr. Chair.

8 THE CHAIRPERSON: Okay. Mr. Tess, Ms.
9 Grewal appeared before the standing committee and
10 Crown corporations on June 29th, 2021. Were you there
11 with her?

12 MR. AUREL TESS (by Teams): I attended
13 virtually, but I wasn't -- I believe --

14 THE CHAIRPERSON: Okay.

15 MR. AUREL TESS (by Teams): -- so did
16 Ms. Grewal, yes. Yeah.

17 THE CHAIRPERSON: Yeah. Ms. Schubert,
18 can you pull up -- I'm looking at it in MIPUG's book,
19 tab 8, page 74.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRPERSON: I thought it was
24 just my computer at home that didn't like me.

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Well, that's not...

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Sorry, it's page --
8 it's -- Mr. Hacault says it's page 91 of the PDF, Ms.
9 Schubert.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: Yeah. Sorry.

14

15 (BRIEF PAUSE)

16

17 THE CHAIRPERSON: Okay. Yeah, that's
18 the one.

19 I just want to read paragraph 3, Mr.

20 Tess.

21 "In terms of, for Manitoba Hydro,
22 the 3 1/2 percent is something that
23 management determined through our
24 analysis that a 3 1/2 percent rate
25 increase, effective October 2021, is

1 important. This is something that
2 was submitted to Treasury Board in
3 August of 2020 when we were doing
4 out initial forecast. But, again,
5 as I said, it is an assumption that
6 Manitoba Hydro management believes
7 is the rate increase required to set
8 the -- the trajectory to achieve the
9 current 75:25 debt-equity target
10 that we are to reach."

11 Do you see that, Mr. Tess?

12 MR. AUREL TESS (by Teams): I do, yes.

13 THE CHAIRPERSON: And were part of the
14 team that put together the information for Treasury
15 Board for August of 2020 requesting the 3 1/2 percent?

16 MR. AUREL TESS (by Teams): Yes, I
17 was.

18 THE CHAIRPERSON: Okay. And then ten
19 (10) days later, the Government issued a news release
20 that said it was going to be 2.5 percent a year for
21 three (3) years.

22 Is that correct?

23 MR. AUREL TESS (by Teams): Is that
24 correct? The timing sounds that -- right --

25 THE CHAIRPERSON: Yeah, I think --

1 MR. AUREL TESS (by Teams): -- right,
2 yeah.

3 THE CHAIRPERSON: Yeah, it -- July 8th
4 was the testimony.

5 MR. AUREL TESS (by Teams): Yeah.
6 Correct, yeah.

7 THE CHAIRPERSON: Did Ms. Grewal know
8 on June 29th that the 3.5 percent that she talked
9 about in the hearing was going to be lowered to 2.5
10 percent?

11 MR. AUREL TESS (by Teams): I don't
12 believe so, no.

13 THE CHAIRPERSON: And you indicated, I
14 believe, in your testimony that you were advised just
15 prior to the announcement.

16 Is that correct?

17 MR. AUREL TESS (by Teams): That is
18 correct, yeah.

19 THE CHAIRPERSON: Okay. Kristen, if
20 you could pull up PUB-MFR Attachment 3.

21

22 (BRIEF PAUSE)

23

24 THE CHAIRPERSON: Now there's a -- a
25 table. No, that's not -- sorry, page -- I'm sorry,

1 page 12.

2

3

(BRIEF PAUSE)

4

5

THE CHAIRPERSON: This is in Mr. --

6 I'm sorry, this is in Mr. Peters' book of documents.

7 It's on page 12.

8

9

(BRIEF PAUSE)

10

11

THE CHAIRPERSON: Okay. Let's do

12 it...

13

14

(BRIEF PAUSE)

15

16

THE CHAIRPERSON: Oh, okay, that's it.

17

Mr. Tess, you -- you provided this

18 document as a response to the Coalition.

19

Did you prepare a document similar to

20 this when you found out it wasn't going to be 3.5

21 percent, it was going to be 2.5 percent?

22

MR. AUREL TESS (by Teams): Is your --

23 is your question specific to communications with the

24 province or just so I -- just to clarify? Yeah --

25

THE CHAIRPERSON: Well, was there an

1 internal working document that says, Here's what the
2 impact is going to be; instead of 3.5 percent a year
3 for three (3) years, we're looking at 2.5 percent a
4 year for three (3) years and how do we handle it?

5 MR. AUREL TESS (by Teams): Okay.
6 Just one (1) moment, please.

7

8 (BRIEF PAUSE)

9

10 MR. AUREL TESS (by Teams): Yeah, I
11 think it's fair to say we -- we did a high-level
12 scenario similar to this for internal purposes. But,
13 as we indicated, we were in the -- in the timing-wise,
14 we didn't have full knowledge of the impact of the
15 drought which really didn't occur until October.

16 And the other factor is that we were
17 still in the midst of developing our -- our
18 preliminary budget, and all the information and data
19 underpinning that would not have been available at
20 that particular time, Mr. Chair.

21 THE CHAIRPERSON: Well, I guess, the -
22 - the problem I have if even if you didn't have a
23 drought, you had a document submitted to the Treasury
24 Board in August of 2020 --

25 MR. AUREL TESS (by Teams): M-hm.

1 THE CHAIRPERSON: -- where you were
2 asking for 3.5 percent. It appears that you thought
3 you were getting 3.5 percent until July 8th when you
4 found out you were getting 2.5 percent, which would
5 certainly -- I would say on the face of it -- affect
6 the financial position of Manitoba Hydro, and you're
7 saying you didn't do projections -- drought aside --
8 to figure out what the implications would be, even if
9 you didn't have a drought?

10 MR. AUREL TESS (by Teams): No, that's
11 not what I said, Mr. Chair. I said we -- we would
12 have done a high-level scenario similar to this, but
13 it wouldn't have been complete, given the stage we
14 were at with our -- our planning cycle.

15 THE CHAIRPERSON: So was there any
16 thought in terms of -- notwithstanding it was a high
17 level -- what your options were on how to deal with
18 the -- the shortfall that you were going to face?

19 MR. AUREL TESS (by Teams): That would
20 have been dealt with through our planning cycle as --
21 which we were still in the midst of -- of doing,
22 actually, at that time.

23 THE CHAIRPERSON: So if there was no
24 drought, when would you have known -- when would your
25 planning cycle have been complete so you would know

1 what your shortfall would be and how you would start
2 to handle -- planning to handle it?

3 MR. AUREL TESS (by Teams): I would
4 say if there hadn't been a drought and we weren't in a
5 rate application process, we may have been able to
6 address this earlier; in other words, get our budget
7 done earlier.

8 But as you know, we weren't -- we
9 weren't planning on submitting a rate application.
10 Our plan was to complete work on the '22/'23 budget
11 and Enterprise plan, which we were fully engaged in at
12 the time, you know, the news came that we were
13 submitting the application.

14 So if you're asking when, I would say
15 it would have been -- it would have happened earlier,
16 probably three (3) weeks earlier than we got it
17 completed.

18 THE CHAIRPERSON: Okay, so in -- you
19 were notified about the direction to file an
20 application some time --

21 MR. AUREL TESS (by Teams): Yeah.

22 THE CHAIRPERSON: -- some time in
23 September, is that correct?

24 MR. AUREL TESS (by Teams): Yeah, I --
25 I -- sorry I don't know the exact date, but --

1 THE CHAIRPERSON: Yeah.

2 MR. AUREL TESS (by Teams): -- but it
3 would have been September, yes.

4 THE CHAIRPERSON: Yeah, neither do I.

5 MR. AUREL TESS (by Teams): Yeah.

6 THE CHAIRPERSON: So, at the time
7 that you were notified that you were making -- you
8 were going to make an application to the PUB, you were
9 not in a position to know what the shortfall would be,
10 even if there was no drought?

11 MR. AUREL TESS (by Teams): Well, we
12 would have had something like -- like you're looking
13 at here, but again we wouldn't have known, for
14 example, all the -- all of the full impacts with the -
15 - the most recent information.

16 I'm just -- I'm just confer with my
17 colleagues here on -- on some of the information that
18 would have been missing at the time, and I'll just --
19 just give me one moment please.

20 THE CHAIRPERSON: Yeah.

21

22 (BRIEF PAUSE)

23

24 MR. AUREL TESS (by Teams): So, just
25 to give you some examples that wouldn't have been

1 complete at the time, operating in admin, which is a -
2 - as a line item, as you know, we have more influence
3 over -- and for sure our capital budget.

4 We would have had the load forecast,
5 although again the water impacts wouldn't have been --
6 but I think your scenario is -- without the water
7 impacts, right?

8 THE CHAIRPERSON: Yeah.

9 MR. AUREL TESS (by Teams): Yeah.

10 THE CHAIRPERSON: Okay. Mr. Gawne,
11 how was your summer?

12 Were you looking at -- were you looking
13 at water tables all summer?

14 MR. KEVIN GAWNE (by Teams): Sorry, I
15 was on mute. How was my summer? My water bill is
16 high, my grass suffered, but it -- it -- it was --
17 yeah, we were constantly looking at water conditions.

18 THE CHAIRPERSON: Yeah, that -- so, I
19 -- I must say I was at my -- at my cottage on Lake
20 Winnipeg, looking at Lake Winnipeg and figuring how
21 many further yards I'd have to go onto the lake.

22 When did -- I assume you were -- you
23 were watching it on a daily basis in the summer. When
24 did you start getting really nervous that we were in a
25 real -- really serious situation?

1 MR. KEVIN GAWNE (by Teams): Well, our
2 -- you know, our system is -- is designed to -- to
3 operate through drought, so we have some solid plans
4 to -- to ensure that we operate through a drought
5 reliably.

6 That's not to say that it's not going
7 to be a costly event. You know, we've been monitoring
8 conditions prior to this spring, certainly watching
9 the Winnipeg River basin conditions.

10 Essentially, since I think it was in
11 August of 2020. You'll remember you had a shorter
12 beach and we were at maximum discharge out of Lake
13 Winnipeg cause we still had flood inflows, right?

14 So, then after that, we -- we were able
15 to reduce flows and -- and the Winnipeg River basin
16 was already drying up at that time.

17 So, we were able to reduce flows out of
18 Lake Winnipeg in the fall of '20, increase them again
19 through winter, as we normally do, for winter load.

20 But then once April rolled around, we
21 started to reduce flows. So, you know, we're always
22 worried about drought, but we always, you know, we
23 have plans to -- to manage through drought.

24 THE CHAIRPERSON: Okay.

25 MR. KEVIN GAWNE (by Teams): Yeah.

1 THE CHAIRPERSON: Thank you. Mr.
2 Tess, I just have a few questions about the GRA. I
3 understand that we're looking at a multi-year GRA some
4 time in 2022.

5 You mentioned this morning that you're
6 looking at the fall, are you looking at the fall
7 period as when Manitoba Hydro thinks it would file or
8 when it would actually proceed to a hearing?

9 MR. AUREL TESS (by Teams): Mr. Chair,
10 I don't think we've progressed in our thinking that
11 far yet. I think we're, you know, we -- we do want to
12 talk to your officials about -- about what is possible
13 and, you know, as -- as early as we can get in, we'll
14 -- we'll get in with our application, but currently I
15 think the thinking is, we would file in the fall.

16 THE CHAIRPERSON: Okay, so, as I
17 understand it from the testimony, it appears you're
18 not looking for a rate increase during calendar 2022,
19 any rate increase. Is that correct?

20 MR. AUREL TESS (by Teams): Yeah, it -
21 - fiscal -- it's fiscal '20 -- '22/'23 where we don't
22 have a -- a rate increase. So starting in April to --
23 yeah -- to the end of March, 2023 --

24 THE CHAIRPERSON: So you ---

25 MR. AUREL TESS (by Teams): -- would

1 be the assumption.

2 THE CHAIRPERSON: The assumption is
3 Zero percent.

4 MR. AUREL TESS (by Teams): Yeah.

5 THE CHAIRPERSON: Okay. In terms of
6 long-term planning and you can -- you can tell me it's
7 an issue to discuss later on, if Manitoba Hydro is
8 seeking to get into a regular cycle of two (2) or
9 three (3) years at a time, at what point would you see
10 the rate, and I don't mean by year, but in your fiscal
11 year, when would you see the rate coming into effect?

12 MR. AUREL TESS (by Teams): Well,
13 there's -- there's -- there's pros with -- with having
14 the rate commence, the rate increase commence with the
15 beginning of a fiscal year. I think there's some
16 rationale to that.

17 Our -- our -- our preference would be
18 to get into a cadence where we're looking at
19 potentially multi-year rate applications as well, on a
20 regular basis and commencing in April would be
21 something we're looking at as well.

22 THE CHAIRPERSON: Okay. Okay, thank
23 you. Thank you, Mr. Tess. I appreciate your comments
24 and --

25 MR. AUREL TESS (by Teams): Yeah.

1 THE CHAIRPERSON: -- thank you to
2 everybody who's appeared.

3 And we will resume tomorrow at, I
4 believe, 1:00 p.m.

5 MR. BRENT CZARNECKI (by Teams):
6 Excuse me.

7 THE CHAIRPERSON: Sorry, yes.

8 MR. BRENT CZARNECKI (by Teams): Sorry
9 --

10 THE CHAIRPERSON: Oh, I'm sorry --
11 sorry. Mr. Czarnecki, I apologize. I'm sorry about
12 that, I didn't look at my form, so it's re-
13 examination.

14 It's -- it's -- turn it over to you.

15 MR. BRENT CZARNECKI (by Teams): Mr.
16 Chairman we do not have any re-examination, but I
17 think Mr. Gawne just wanted to add to Board member
18 Grant's question, if possible.

19 THE CHAIRPERSON: Oh, certainly, thank
20 you.

21 MR. KEVIN GAWNE (by Teams): Thank you.

22 THE CHAIRPERSON: Mr. Gawne, yes.

23 MR. KEVIN GAWNE (by Teams): Yes,
24 thank you. Yeah, the -- the IR that I was referring
25 to that addressed analysis -- statistical analysis of

1 hydrology was Coalition MH-62 A to E, from the
2 2017/'18 and '18/'19 GRA.

3 So that provides some background on the
4 -- on the trend analysis that's been done by Manitoba
5 Hydro and others on the Nelson Churchill Basin.

6 I also just wanted to add a little bit
7 to my response to -- to Chairperson Gabor on
8 operations through this spring.

9 We did come into spring of '21 with
10 average storage overall conditions, so we -- we had
11 some reservoir storage to -- to assist us through that
12 dry spring and we -- and we, you know, we were aware
13 that conditions can turn around, and we had a rain
14 season in front of us.

15 So certainly knowledgeable about the
16 basin conditions, but also knowledgeable about how
17 water supply conditions can -- can recover through,
18 particularly, through the heavy rain season of, you
19 know, June, July, August and -- and as we've
20 experienced recently, the fall.

21 So, just a little bit more follow up on
22 your question. Thank you.

23 THE CHAIRPERSON: Thank you.
24 Appreciate that. Thank you everyone and we'll adjourn
25 until tomorrow at 1:00 p.m. for the closing submission

1 by Manitoba Hydro, followed later by the closing
2 submission by MKO.

3 Thank you very much. Had -- have a
4 good evening.

5 MR. AUREL TESS (by Teams): Thank you.
6 You as well.

7

8 (PANEL STANDS DOWN)

9

10 --- Upon adjourning at 4:10 p.m.

11

12 Certified Correct,

13

14

15

16 _____

17 Wendy Woodworth, Ms.

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